the Freeman

Ideas on Liberty

AUGUST 1969

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LEONARD E. READ *President,* Foundation for Economic Education

PAUL L. POIROT *Managing Editor*

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FLOATING EXCHANGE RATES

THE RT. HON. J. ENOCH POWELL, M.P.

MY THEME is human folly. It is a theme so prolific and inexhaustible that one wonders at the survival of a species incessantly preoccupied with the assertion of absurdities, that is, with the denial of salient facts about the environment in which it exists.

All nations have their own local and national nonsense; but on none of these would I presume to address you. I am in a foreign country. Decency, therefore, forbids me to expatiate upon the foibles of Britain; and good manners debar me from referring to those of my hosts. There is, however, no lack of material on that account, because you and we and many other nations participate together in one and the same grand nonsense, which is respectfully referred to as "the international monetary system." This huge pyramid or Tower of Babel is constructed upon a simple but perfectly adequate foundation. This is the assertion that the values of the different national currency units in terms of one another and of ounces of pure gold ought not to vary from month to month or from year to year or even from decade to decade – at least, unless they are altered by a committee decision among the nations. It is similar to, and as absurd as, asserting that all the prices of stocks and shares are to remain unaltered unless and until this one or that is revised by the Stock Exchange Commission.

I will not detain you by arguing, what is obvious, that neither in the one case nor the other will the prices ever be right – except, by some remote chance, for an instant of time. Apart from this

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extreme exception, they are all bound to be more or less wrong, in one direction or the other, all the time. Of course, if the various national currencies *were* gold, chopped into bits of different sizes, or gold represented by pieces of paper which could instantly and unconditionally be exchanged for a specified bit of gold, then indeed their respective values in terms of one another would be, if so desired, immutable, because they would all be one and the same stuff.

This used, until just after I was born, to be the case; and the memory like the memory of so much else prewar (which to me means "pre-World War I) still haunts mankind and is part of the etiology of the collective aberration I am discussing. This was specially plain when we in Britain plunged into it in 1925 by what was miscalled "going back onto gold." After a decade of war and confusion, at last the blessed, the magic, the prewar equation of £3:17:10½ sterling with an ounce of fine gold occurred in the market. It was a nostalgic moment, and small wonder if we tried to grapple it to ourselves forever, saying, like Faust to the passing hour: "Oh, tarry yet; thou art so fair."

Within six or seven years the decision was found to be unsustainable and presently it became widely accepted that it had also been inherently wrong and one of the causes of the depression into which we and other countries descended around 1930 and from which some recovery was perceptible after 1931. It is one of the ironies of our age that those who wholeheartedly accepted this view hastened to re-establish the system of 1925 again after 1944 and have maintained it pertinaciously ever since, explaining that all that was wrong in 1925 was the particular figure chosen to be fixed.

$35 an Ounce

You in the United States still live under the influence of a similar popular emotion. Having once asserted, thirty-five years ago, that the price of fine gold was $35 an ounce, you have persisted in that assertion as though the mere repetition could make and keep it true. There is an enormously deep human yearning—which finds multifarious religious expression—for something changeless and eternal to which to cling: "O Thou that changest not, abide with me."

Here was an equation, closely allied with the concept of the nation itself, something around which in any case the human instinct for survival and diuturnity strongly centers—the equation be-

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tween a piece of gold and a dollar bill, the very symbol of America. Surely its permanence could be asserted and, being asserted, be secured? Once again, if and so long as that dollar bill was instantly and unconditionally exchangeable with gold, the statement would be a truism and therefore true; but when it ceased to be so exchangeable, there was no reason why, except for a brief chance moment, the price of gold in terms of dollars or of dollars in terms of gold, should remain at any particular figure: the conditions of supply and demand, of production and desirability, of the two things having no specific and necessary relationship. Yet, to maintain the assertion, you have more than half emptied Fort Knox and spun a web of controls and compulsions around American citizens.

Trapped by Error

So here are our two nations, along with others, making assertions about the respective values of our domestic currencies which are manifestly untrue, and assertions about the stability or permanence of those respective values which are manifestly absurd. Yet to these assertions we are committed by dint of habit and repetition and the most solemn and repeated asseveration.

This is no new phenomenon. Indeed, as I have suggested, one form or another of it is perfectly normal. Consequently, we have ample experience from which to predict with assurance how people will react in order to defend and shore up the untruth and absurdity, because, of course, being untrue and absurd, it is always threatening to collapse. One reaction – I will not dilate on it at any length – is to shout at anyone who points out the untruth or absurdity, to drive him away with stones and curses, and, in primitive times, if possible to kill him. Those who in recent years have been so bold as to talk in public about a floating pound or a market price for gold will be personally familiar with this kind of treatment.

The next reaction is to invent a range of imaginary terrors depicting what would happen if the untruth or absurdity were abandoned. This may, psychologically, be an attempt to frighten oneself out of thinking, and is perhaps close kin to those medieval elaborations of the horrific torments which awaited those who questioned the dogmas of ecclesiastical authority. These superstitious fears are, I believe, worth extensive and patient examination, because they illustrate one of the great dangers to freedom, whether it be freedom of thought and

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speech, or of trade and economic decision. This is that, once freedom has been lost, it can so easily be made to appear impracticable, and indeed chimerical.

Unfounded Fears

As soon as the price of an article is controlled, men are soon persuaded that unless it were controlled, the article would be unobtainable: if food prices were decontrolled, they imagine they would starve; if house rents were freed, they imagine they would perish of exposure. Thus the loss of a freedom becomes self-perpetuating through fear of the unknown, and habit soon teaches men to believe there is no alternative to the state in which they find themselves. This is cognate with the awkward fact that while the effect of control is easy to argue — "if the government fixes the price, then that is the price which will apply" — the practicability and superiority of freedom are in the last resort demonstrable only experimentally, by experience.

We know that men can walk erect on two legs, because in fact they do; but if we had been kept for long enough on all fours, we should treat with skepticism and ridicule any bold spirit who suggested that it would be much easier and simpler to walk about. We should have become convinced that any such dangerous and unproven experiment would speedily result in broken noses or cracked skulls.

The terrors with which imagination has invested the simple notion that gold and the various national currencies should be allowed to price themselves, like anything else, in the market and that all the contortions and controls designed to fix their respective prices are futile and harmful, find close parallels wherever the market has been distorted or destroyed. Hence, in examining the superstitious fears attendant on the preservation of "the international monetary system," we are confronting the same imaginary monsters as bar the road to every freedom.

I take the first. "We should be plunged into uncertainty, and never know the exchange rates from one day to the next." This is the cry of the prisoner of the Bastille, who pitifully longed for the security of his confinement. He, however, did at least get regular meals and live in the same old cell. The irony today is that the very people who express this fear never know at present a moment's freedom from anxiety. Day by day the headlines scream at them about impending devaluation, or revaluation, or some other abrupt and disagreeable contin-

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gency. The pains they dread are those with which they are already suffering – but in a specially acute form, for one more uncertainty and unknown is added to all those which exist anyhow: namely, the uncertainty as to whether, when, and how the arbitrary fixed price will be altered.

An Added Uncertainty

There is no uncertainty in this world quite so great as the uncertainty about what a government is going to do next. These uncertainties already have to be taken into account in every transaction in which the future exchange value of currencies is a factor. In the jargon, only "spot" is fixed while "forward" varies from day to day, reflecting as best it can the opinions which those concerned hold about the future.

The moral is this. We do not banish change and uncertainty by pretending, or asserting, that they do not exist. We thereby only make them even harder to anticipate and to guard against. A premium has always to be paid to insure against the unknown. That premium will be higher if the unknown includes the actions and decisions of politicians and if trends and changes in the real world are not constantly being reflected, genuinely and freely, by changing market prices. What a terrifying position it would be if the spot prices on the Stock Exchange were pegged – and incidentally, therefore, rigged and subsidized by the controlling authorities – while only the futures were allowed to move.

I have disposed, just now, incidentally of the argument that international trade would be inhibited by a higher cost of insurance against currency risks, by pointing out that the opposite would in fact be expected. I pause only to note that this argument is a special form of the general claim that control is economical and minimizes costs by substituting certainty for uncertainty – a proposition which any person or trade with practical experience of state control finds highly satirical. The actual effect is to replace continuous adjustment by large, jerky, and belated concessions to a reality it is no longer possible to deny or defy – in this context, the sudden, long-anticipated but long-delayed jolts of devaluation and revaluation.

Planned Chaos vs. Freedom

Sometimes, however, it is simply stated as self-evident that the growth of world trade would suffer if the respective currencies and gold were continuously priced against one another in the market. This is a recognizable variant of

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the well-known "chaos" superstition, whereby the operation of the market in any area is described as "chaotic," immediately creating by this metaphor the impression that the movement of individuals and their relations with one another are impeded. We are so familiar with such terms as "traffic chaos," "administrative chaos," "chaos and dark night," that the mere mention of the word is sufficient not merely to suspend judgment but to neutralize experience.

People who are perfectly and daily familiar with the market where it exists – in the shopping center, for example, or on the stock exchanges – will instantly persuade themselves wherever they are not accustomed to it that it would produce "chaos." This impression is reinforced by the application of the solemn and impressive term "system" to the opposite. It is wonderful what can be achieved by giving to the, truly chaotic, behavior of national governments in the last twenty years the title of "the international monetary system," and describing as "a threatened collapse of the system into monetary chaos" the prospect of those governments being forced to recognize the true respective values of their currencies.

The "system" – to call it for once by its nickname – incidentally necessitates, and has in fact always necessitated, the repeated and abrupt interference of governments in the trade and investment of their subjects, internal and external: changes of taxation, import controls, import deposits, import surcharges, alterations of interest rates, prohibitions on loans. To be able seriously to argue that such a system is actually favorable to international trade is striking evidence of the depth to which superstition has penetrated. The fear of the unknown like all fear renders its victims irrational and blind to their surroundings.

The Course of Trade

Another superstitious fear–we may be more familiar with this in Britain than you are here – is that if the exchange rate of a country's currency were to fall, it would be unable to buy the raw materials for its industries or even the food which it needs. This is a particular version of the general cry in defense of control: "If it were not there, we should starve."

There is, of course, absolutely no rational basis for this fear. If a given number of British products of a certain kind exchange for a given amount of raw material or finished goods in Brussels or Buenos Aires or New York on one

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day, so they do the next day, irrespective of any alteration overnight in the exchange value of sterling. The supply and demand equation in Brussels or Buenos Aires or New York is unaffected by the number of pounds the exporter gets for his francs or pesos or dollars when he changes them to come home, or by the number of pounds the importer has to find to buy the goods in francs or pesos or dollars. The realities are unaltered: the same volume of British goods and services exchanges in the outside world for the same volume of foreign goods and services. In other words, our ability to buy what we want from abroad is unaffected: our standard of living remains absolutely unchanged.

What would happen is that if the exchange rate fell, and consequently importers had to find more pounds while exporters earned more pounds, there would be a shift — ever so slight, but enough and just enough to produce a balance without borrowing — away from imports and toward exports. The shift would be so slight as to be imperceptible — less, at the moment, than one per cent of the national product or much less than the gain which we make year by year in production — and the shift in jobs would, of course, be even smaller still.

This tiny margin is the sole extent to which Britain's standard of living is being, even temporarily, maintained by the rest of the world: it is a margin so narrow that the economic growth even of a single average year is sufficient to swamp it. Yet, it is the only basis for the accusation which the British positively enjoy leveling against themselves, that they "imagine the rest of the world owes them a living."

"Balance of Payments"

Another common but equally irrational fear that prevails in countries which, under a system of fixed parities, inevitably have what is called "a deficit on the balance of payments," is that if the current parity were not artificially maintained but were to be replaced by a free and therefore fluctuating and at first presumably lower valuation, foreigners would, as the phrase goes, "take their capital out." The victims of this delusion imagine, as many of us do in Britain, that they would thereby be impoverished, like a village which has been pillaged by a horde of marauders.

In the first place, no productive capital, whoever it belongs to, can be shipped abroad: these assets are, as you might say, landlord's fixtures, and the refineries, retorts, and furnaces are there to

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stay. The most that a foreigner who holds shares in them can do is to try to find somebody to buy the shares from him for cash, and then exchange the cash for foreign currency. The capacity of the country to produce goods and services remains the same.

Let us, however, follow through what would happen. To the extent that foreigners decide to exchange their shares, or other interest-bearing securities, for the cash of the country, the demand for cash is increased and for shares and securities is lowered. In other words, the prices of the shares and securities fall, and the interest obtainable on them – or the reward for surrendering one's cash in exchange for them – correspondingly increases. When the foreigners, having realized their securities, proceed to convert them into other currencies, to that extent they drive down the rate of exchange of the currency *out of* which they are getting in favor of those *into* which they are getting; and thus, in effect, they obtain a lower rate of return on their money – or suffer a loss of value, whichever way you like to look at it – in the new situation compared with the old. Thus, the more foreigners "take their money out," the more the inducements not to do so mount up, in the form of higher rewards for staying and severer penalties on going. It is a sobering experience which, even with fixed parities, has befallen a number of investors in Britain in recent years.

So the fear of a "rush of money out of the country" is pure bogeyman. I have spelled it out in terms of the foreign holder; but obviously the same logic applies to one's own nationals. By all means, if they like to exchange their assets for cash and then convert and invest it abroad, good luck to them! They take the consequences, but none of the rest of us suffers. If internal interest rates rise somewhat in consequence, that is nothing to the rise in rates which we have actually suffered in the effort to "keep up with the Joneses." In itself, a fall in the rate of exchange neither harms nor impoverishes a country. Indeed, there is no such thing as a "high" exchange rate or a "low" exchange rate, but only a "right" exchange rate and a "wrong" exchange rate.

Projecting a Trend

Then comes another "but," introducing another superstitious fear. "But if we let the exchange rate go free, it may fall and fall and never stop." This is, in fact, a very common argument against the market in any area where it does not already prevail: if prices

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are free to rise, they will go on rising forever; or alternatively, if prices are free to fall, they will go on falling forever. It is, of course, nonsense, but none the less dangerous for that. This is why, when food prices were controlled, people feared they would skyrocket otherwise: so long as the price of an egg is controlled at 6 pence, you cannot prove that this does not prevent it from rising to one shilling, or two shillings or any figure you care to name. When the pound is pegged at $2.40, there are people who come to you, serious, educated adults, and say that if it were free, it would fall to $1.00. It is their version of the two-shilling egg. One retort, as above, is: "Well; and if so, what of it?" But another, perhaps more suitable for the weaker brethren, is: "No, it wouldn't; because if the discrepancy between the fixed price and the free price were anything like that, nothing on earth under our sort of conditions – not even a combination of central bankers – would be able to maintain the present fixed price for any length of time." But all this illustrates once again the force of the superstitious fear of the unknown.

Inflation Jitters

My last group of superstitions centers around inflation. We have been having a bad dose of these superstitions in Britain lately, because it has paid the politicians to support (whether knowingly or not) the myth that a fall in a country's exchange rate automatically causes a general rise in prices. This served both as a bogey to protect the absurdity of the fixed rate system, and also as a blind to cover the causes of the higher prices which actually occurred in the fiscal year 1968 when the pound sterling was devalued.

When a market exchange rate is substituted for a fixed exchange rate, two things happen; the deficit (or surplus) – that is, the loan to or from foreigners of a certain quantity of goods and services – disappears; and secondly, relative prices alter internally so as to accommodate that change. Other things being equal, the result would be a general rise (or fall) in prices, the total of goods and services available being that much less (or more). However, as I have pointed out, the proportion was in our case minute and, in any event, more than compensated for by the rise in domestic output. There would, therefore, have been no general rise in prices if other factors had been neutral.

After the change-over from a fixed to a market rate has taken place, further changes in the rate

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will cause an alteration in some internal prices relative to others if, but only if, there is a change in the terms of trade; that is, if a given quantity of a nation's goods and services exchanges for more or fewer than before in the outside world. When this happens, there may also, but will not necessarily, be a rise or fall in the gross national product in consequence and thus, in the absence of other factors, a general fall or rise in prices.

However, the principal context in which inflation appears in this whole debate is the belief that fixed rates of exchange are a safeguard against domestic inflation, and – according to taste – either prevent the politicians from indulging in it or force them to keep control upon it. There are three answers to this, at different levels. One is that fixed rates of exchange demonstrably do not prevent domestic inflation, and that there is no correlation between the stability or otherwise of domestic prices in various countries and their showing in deficit or surplus under the system of fixed exchange rates.

The second answer is one I am entitled to give with confidence as a working politician: it is that if there were no such thing as the balance of payments, if the country concerned were the only inhabited land on the globe, the politicians would still be punished by the electorate for indulging in more than a certain mild degree of inflation. The true sanction on inflation, and the true penalty for practicing it, is the effect on people of the defeat of expectations and the shift of power from person to person, class to class, governed to government, which it causes. That is what the politician has to answer for when he meets his constituents.

But the third, and last, answer is a defiance. "If we here want to inflate our currency, what business is it of any other country, provided we do not try to insist on everybody else financing us? That is, provided we accept the consequences in terms of truthful exchange rates, it is part of our sovereign independence to do as we will with our own domestic currency and to be as much, or as little, pseudo-Keynesian as we please."

Finally, Common Sense and Reason Become Suspect

I conclude by confronting the last and most dangerous of the demons which keep people imprisoned in the cage of control and falsification, once the spring door has closed behind them. This is, that common sense and reason themselves become suspect. "If

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you were right," the prisoners protest, "we would have walked out of prison long ago; if the bars were illusory, we should not then have all lain in fetters so many years. What you say is too simple and obvious to be true. Away with you; you are a false prophet." So the prisoners are made to act as their own wardens, and the world has witnessed these last twenty-five years, if it would but look, the ironical spectacle of whole nations wrestling with conundrums, commonly miscalled "economic problems," which are the creation of their own persistence in absurd, and manifestly absurd, practices.

How, then, if rational argument thus becomes counterproductive, are the superstitions to be destroyed and the imaginary prisoners liberated? Don Quixote turned sane on his death bed, but that cure will not do. My own guess is that sooner or later, quite accidentally and unpredictably, an inrush of reality occurs, against which even the most entrenched superstitions and self-punishing delusions are not proof, and the edifice of control and falsification collapses, leaving the former victims out in the open, bewildered but intact. That will be the moment, with encouraging and reassuring words, to approach and say: "That's all right. There was nothing to be afraid of all along. I told you so!" This uttered, it will only remain to turn smartly away, and open the attack upon some ensuing folly. ◈

Capital Gains

GEORGE HAGEDORN

AT THIS TIME the whole Federal income tax system is under scrutiny, with the possibility that substantial changes will be made in it. In the discussion, the subject of tax treatment of capital gains is being brought up. Frequently, the attitude is expressed (or implied) that capital gains are, after all, simply one kind of income which should be taxed in the same way as any other.

We see this assumption em-

Mr. Hagedorn is Economist and Vice-President of the National Association of Manufacturers. This article is from his column in NAM Reports, June 9, 1969.

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bodied in some of the statistical horror stories, intended to illustrate how wealthy taxpayers get away with murder. The usual procedure is to show that the taxpayer really pays a much lower rate on his income than the schedule of tax rates would suggest he should. In the computation of his "actual" tax rate, capital gains are included in the divisor, on a par with the wages, dividends, and interest received.

The same view appears more explicitly in a statement by Professor Robert Eisner, of Northwestern University, recently included in the *Congressional Record*. After protesting generally against tax "loopholes," Professor Eisner goes on to say: "Most conspicuous and substantial are the huge amounts of income now enjoyed in the form of capital gains." A little later he argues: "For those who take the capital gains route of earning money, taxes are of course minimal. . . ."

This raises a question which we will try to analyze in this column. Are capital gains simply another form of income – to be logically included in income totals, and taxed, on the same basis as any other form?

We may note, first, that the Department of Commerce, in its compilations of the national income, does *not* include capital gains. This is a matter of well-established statistical practice on which there is no dispute among experts. The reasons for it are obvious. To include in the total of the national income an item resulting solely from the revaluation of existing assets would be to give a completely false picture of the state of the economy. We cannot make each other prosperous by selling each other things which have been around all along, even if we raise the figure on the price tag. There is no real income for the nation in such exchanges.

But this still leaves the question of whether capital gains may be a real item of individual income. Is it possible, in some strange way, that a realized capital gain is an integral part of a person's income, without being part of the total national income?

This question is often dismissed impatiently with the comment that anyone may spend capital gains in just the same way he spends his salary or his dividends. A person, if he chooses, may spend *all* of his past savings and not only the part he regards as a capital gain. But this doesn't mean that when we draw down on past savings they become current income.

When this is brought up, the argument usually shifts to another ground. It is contended that a person may spend his capital gain,

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and still leave his savings intact.

This sounds persuasive until we analyze its implications. Suppose your savings are in the form of ten acres of land, for which you originally paid $900 an acre but which are now worth $1,000 an acre. You might figure that you could sell one acre and spend the money on consumption without impairing your original savings. After all, you would still have $9,000 worth of land left. It sounds good but, if the price kept going up and you kept selling land an acre at a time and spending the money, it would be hard to maintain indefinitely that you weren't impairing your savings as your landholdings declined toward zero.

It seems clear that when the government taxes capital gains, it is taking a share, not of the individual's current income, but of his past savings. The fact that the market might have revalued the assets in which those past savings are embodied doesn't change that situation.

Of course, political leaders who pride themselves on being "pragmatic" may brush all this aside. Capital gains are there and, since the government needs revenue, why not tax them? A fine theoretical distinction as to whether they are or are not income may seem beside the point.

We will not comment on this pragmatic view beyond pointing out that it would be hard to combine it with moralistic protests of outrage at the present special tax treatment of capital gains. We do feel some qualms at the thought that the government could justifiably tax anything that is handy, simply by declaring it to be income.

We suppose that some form of the pragmatic argument will continue to prevail and that capital gains will continue to be taxed. We hope, however, that political pragmatism will include some recognition of the practical effects of capital gains taxation on the economy.

The impairment of individuals' past savings by capital gains taxation is matched by an equal impairment of the nation's supply of capital for use in production. The fact that such impairment, in either sense, is currently made good from other sources doesn't change the matter.

Presently there are strong voices calling for more severe tax treatment of capital gains, on the ground of equity as among taxpayers. It seems to us a case of an invalid argument being used to support an economy-damaging proposal. ◈

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PAUL L. POIROT

MONEY and the MARKET

JOGGING is great for the circulation, but it is no cure for inflation. A man simply can't outrun a printing press.

"A printing press run wild" is not a perfect definition of inflation, but it will do for a start. The details have to do with the exchange of goods and services and with the money supply which serves as the medium of exchange and the foundation for economic calculation or business accounting.

Goods and services can be exchanged directly as a matter of barter. But the process is primitive and cumbersome. Supply and demand are continuously changing for each item; in the absence of money, there is no easy or convenient way for any buyer or seller to compare various costs of production or to determine the profit or loss from his operations. If he is to specialize in production and trade, really go into the business of serving consumers, he needs a special tool: a unit of accounting or economic calculation — a medium of exchange that will enable him to compare with reasonable accuracy the cost of one commodity or service with the cost of various other factors of production. In other words, he needs a money so that he can know the money prices at which economic goods are available for trade.

This is not to imply that anyone ever sat down and logically invented money. Tradesmen probably discovered by a process of trial and error and long experience that some particular item of commerce was more universally traded, more easily recognized, more readily accepted than most other items —

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perhaps some precious metal such as silver or gold. Whatever it was that thus facilitated trading came to be used as the medium of exchange or money – and then it was possible to determine the money prices of other scarce and valuable resources.

It's true, of course, that money is a great convenience to traders. It facilitates the process. And it's doubtless true that money was discovered or came into use because traders found it helpful. But the great value of money and the most important reason for having a monetary unit is that it permits the entrepreneur to operate in a businesslike manner. It makes possible the record keeping and cost accounting by which he can determine, with workable accuracy, the profit or loss from various operations, combinations of resources, transactions. It takes enough of the guesswork out of the process to enable competitive private enterprise to function in an open market and to efficiently serve the most urgent wants of consumers. It is the essential lifeblood of specialized industrial production and trade.[1]

The future is always uncertain, to be sure. The conditions of supply and demand for each and every item of commerce are constantly changing. And the most successful entrepreneur is the one who can most accurately predict or guess the direction of such change and plan his operations accordingly. Money prices, of course, do not eliminate the uncertainties of the future in an ever-changing world. Prices simply extract from the giant computer of the market place the most accurate possible representation of the latest available conditions of supply and demand. Not perfect, but something; and this is information vital to the conduct of business and trade.

Formulas for Perfection Are Doomed to Fail

There is a grave temptation among those who appreciate the necessity of money to try to set forth its specifications and create an artificial money system that would perfectly serve the purpose of trade. The natural money that grows out of trade – gold, for instance – is subject to more or less unpredictable changes in purchasing power: the discovery of new mines or mining techniques might augment the supply; or various new nonmonetary uses for the metal or a popular urge to hoard gold would affect the demand. In other words, gold is a monetary

[1] For further development of the importance of money for economic calculation, see *Human Action* by Ludwig von Mises (Chicago: Regnery, 1966 revised edition), especially pp. 212-231 and 398-478.

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yardstick that might shrink or expand in general purchasing power from time to time. So the temptation is to create an artificial yardstick that might be of stable purchasing power. Instead of relying on the market to determine what the money unit ought to be and how much of it there ought to be, some men believe that a better money system can be provided through government definition, regulation, and control; if it is to be gold (or whatever else may be chosen as money), let government regulate the supply and set the price in order that the money unit may have greater stability; let government take charge of coinage or printing to assure that each monetary unit is of the precise weight and fineness as advertised; let government devise an index of the cost of living or of purchasing power as a guide to the quantity of coins or other monetary units to be allowed in circulation.

To yield to such temptation is to mistake the nature and purpose of money. Money comes into being only as the result of trading in the market. Artificial money substitutes are relatively worthless as the tool for economic calculation upon which industry and trade depend – the greater the artificiality, the less the value for monetary purpose.

Stop the Counterfeiters

There is one useful service government can perform with respect to money. It can apprehend and punish counterfeiters who might try to substitute "fool's gold" for the real thing, thus to withdraw goods and services from the market by defrauding rightful owners. But governments are rarely content to limit their activities to the defense of life and property. Politicians bend easily to popular demand, and will as quickly serve the purposes of counterfeiters or other pressure groups as they would serve the purposes of honest and peaceful men and women. This is why no honest, peaceful person ever should delegate to government any responsibility for or control over the money system, other than to stop counterfeiters.

Anything the government does must be paid for in taxes. There is hardly any limit to what a government will attempt to do if it can gain control of the money system and resort to inflation as a method of taxation to extract goods and services from rightful owners. And this is one of the major reasons why the market relies upon gold as money. Governments have discovered no way to artificially augment or inflate the supply of gold.

Unfortunately, not all consumers and – more unfortunately still

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– not all businessmen understand the vital necessity for a market-originated and market-regulated money if the market economy is to survive. In consequence of such misunderstanding, governments have been authorized – or, at least, permitted – to tamper with the money system until inflation has become the order of the day in practically every significant nation of the world. "Paper gold," we are told, "is better than the real thing!" And it's true that fiat money affords one of the most effective ways for government to get control of all scarce resources, including people. But for honest, hard-working men and women, this is not a condition to be preferred above any other. Nor is an inflationary situation one that can last indefinitely, for it destroys the source of its sustenance – the market economy of competitive private enterprise.

Fueling the Fires of Inflation

Because they do not understand the cause and the nature of inflation, businessmen as well as consumers at every level of income and property-ownership turn more and more to government to uphold their particular interest at the expense of other persons or groups. But by this process of begging for relief, they delegate to government additional powers that only aggravate the basic problem and further fuel the fires of inflation.

For example, many of the aged have placed their faith in Social Security, which leaves them entirely dependent upon the future taxing power of government. The personal thrift and saving so vital to future production of goods and services are thus discouraged. Under pretense of keeping faith with senior citizens, Social Security benefit payments are continuously escalated to try to keep pace with the ever-rising cost of living. So, taxes must be raised; yet there are larger and larger Federal deficits financed by new printings of "paper gold."

It bears repeating here that government-created fiat monies, artificial and irredeemable paper promises that have been declared legal tender, are not the same as real money originating through voluntary trade; nor do these fiat monies adequately serve to facilitate business and trade and provide a useful unit of business accounting. This fiat money, as in the case of any other form of government price fixing, only creates shortages or surpluses that amount to waste of economic resources. For instance, the irredeemable paper simply induces buyers and sellers to stop trading and start hoarding. Gresham's

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Law that bad money drives out good money means that tradesmen will hoard gold instead of going about their business as usual. Sophisticated recipients of irredeemable paper promises hasten to convert the paper into any and every available tangible resource. If they can't redeem in gold, they will try to redeem in some other form of real property. They may not realize it, but they are trying to find something that will serve as money.

So it is that the prices of real property are bid up to levels that reflect not only anticipated annual earnings but the higher resale price that is to be expected with further inflation. And the government collects a tax on the so-called capital gains whenever an owner can be tempted or forced to sell; or else it imposes an inheritance tax likely to ruin the business in case the late owner could not rid himself of it in time.

Misuse of Scarce Resources

Instead of plowing earnings back into productive but taxable enterprises that would serve the wants of consumers, businessmen are tempted by such policies of exorbitant taxation to divert earnings into tax-exempt charitable trusts that more often than not become propaganda agencies for the socialistic principles upon which they are based. So, the revenues of competitive private enterprise are diverted, by taxes or through various tax loopholes, to causes that are detrimental rather than conducive to perpetuation of the market economy. The profits or rewards consumers have designated for those who best served them are thus turned against the consumer-oriented system of private ownership and trade.

Businessmen are bound to do their best to avoid the impact of heavy taxation. They seek special depletion allowances to quickly write off the value of natural resources that are being used in the course of production. Also, they apply for extra-rapid depreciation schedules on tools and equipment and other production facilities; or they try to add a cost-of-living clause in the depreciation schedule so that the write-off of the old machinery will be sufficient to cover the higher-priced new machinery at time of replacement.

This is not to condemn the businessman for trying to do his best with his business. But these efforts at tax avoidance tend to be largely wasted, in the long run. And they certainly do nothing to halt the inflation that is causing the problem. Changing the rules of accounting to accommodate an encroaching socialism is certain to ruin the accounting system, but

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it will not curb the socialistic trend. Socialism affords no way to make use of the money prices of a free market; business accounting or economic calculation is a unique feature of the market economy.

Creating the Climate for Trade

Instead of wasting time and effort to change the system or the principles of economic calculation and accounting – instead of asking the government to grant tax-exemption and at the same time to assume power to regulate and control more and more of the economy, including control over money and over people – the first order of business ought to be the limitation of government and the preservation of the only kind of a free market economy in which business can logically function for the satisfaction of the wants of the consumers.

Only when money and its regulation and control is taken from government and left to the market, only then can entrepreneurs and consumers enjoy the blessings of private ownership and competitive enterprise, specialized industrial production, and free trade. And free trade in gold is the key to sound money and sound business procedure.

Finally, it should be understood that all the wasted resources and the wasted efforts of businessmen to avoid the consequences of government tampering with money ultimately mean fewer goods and services available at prices the poorest of consumers can afford. This is not a deliberate war against the poor. Government planners and spenders fully intend to help the poor through various welfare programs. But these very programs lead to the government deficits that lead in turn to inflationary policies that distort and eventually dry up the operations of business and trade. The resultant hoarding of economic resources, by those who can afford to fight against inflation in that manner, isolates from the market resources that good business practice otherwise would have made available as efficiently as possible for use by the poor. The ultimate victims of inflation are the ones who can least afford the malinvestment of scarce resources. ◈

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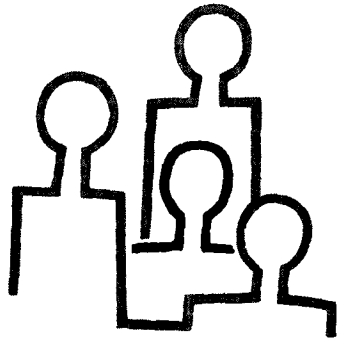
THE FORGOTTEN MAN



WILLIAM GRAHAM SUMNER

THERE IS no such thing on this earth as something for nothing. Whatever we inherit of wealth, knowledge, or institutions from the past has been paid for by the labor and sacrifice of preceding generations; and the fact that these gains are carried on, that the race lives and that the race can, at least within some cycle, accumulate its gains, is one of the facts on which civilization rests. The law of the conservation of energy is not simply a law of physics; it is a law of the whole moral universe, and the order and truth of all things conceivable by man depends upon it. If there were any such liberty as that of doing as you have a mind to, the human race would be condemned to everlasting anarchy and war as these erratic wills crossed and clashed against each other. True liberty lies in the equilibrium of rights and duties, producing peace, order, and harmony. As I have defined it, it means that a man's right to take power and wealth out of the social product is measured by the energy and wisdom which he has contributed to the social effort.

Now if I have set this idea before you with any distinctness and success, you see that civil liberty consists of a set of civil institutions and laws which are arranged to act as impersonally as possible. It does not consist in majority rule or in universal suffrage or in elective systems at all. These are devices which are good or better just in the degree in which they secure liberty. The institutions of civil liberty leave each man to run

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William Graham Sumner was Professor of Political and Social Science in Yale University when he delivered his memorable speech on "The Forgotten Man" in 1883, portions of which are presented here.

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his career in life in his own way, only guaranteeing to him that whatever he does in the way of industry, economy, prudence, sound judgment, and the like, shall redound to his own welfare and shall not be diverted to someone else's benefit. Of course, it is a necessary corollary that each man shall also bear the penalty of his own vices and his own mistakes. If I want to be free from any other man's dictation, I must understand that I can have no other man under my control. . . .

"The Poor and the Weak"

Now you know that "the poor and the weak" are continually put forward as objects of public interest and public obligation. In the appeals which are made, the terms "the poor" and "the weak" are used as if they were terms of exact definition. Except the pauper, that is to say, the man who cannot earn his living or pay his way, there is no possible definition of a poor man. Except a man who is incapacitated by vice or by physical infirmity, there is no definition of a weak man. The paupers and the physically incapacitated are an inevitable charge on society. About them no more need be said.

But the weak who constantly arouse the pity of humanitarians and philanthropists are the shiftless, the imprudent, the negligent, the impractical, and the inefficient, or they are the idle, the intemperate, the extravagant, and the vicious. Now the troubles of these persons are constantly forced upon public attention, as if they and their interests deserved especial consideration, and a great portion of all organized and unorganized effort for the common welfare consists in attempts to relieve these classes of people. I do not wish to be understood now as saying that nothing ought to be done for these people by those who are stronger and wiser. That is not my point. What I want to do is to point out the thing which is overlooked and the error which is made in all these charitable efforts.

The notion is accepted as if it were not open to any question that if you help the inefficient and vicious you may gain something for society or you may not, but that you lose nothing. This is a complete mistake. Whatever capital you divert to the support of a shiftless and good-for-nothing person is so much diverted from some other employment, and that means from somebody else. I would spend any conceivable amount of zeal and eloquence if I possessed it to try to make people grasp this idea. Capital is force. If it goes one way it cannot go another. If you

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give a loaf to a pauper you cannot give the same loaf to a laborer. Now this other man who would have got it but for the charitable sentiment which bestowed it on a worthless member of society is the Forgotten Man. The philanthropists and humanitarians have their minds all full of the wretched and miserable whose case appeals to compassion, attacks the sympathies, takes possession of the imagination, and excites the emotions. They push on towards the quickest and easiest remedies and they forget the real victim.

The Simple, Honest Laborer

Now who is the Forgotten Man? He is the simple, honest laborer, ready to earn his living by productive work. We pass him by because he is independent, self-supporting, and asks no favors. He does not appeal to the emotions or excite the sentiments. He only wants to make a contract and fulfill it, with respect on both sides and favor on neither side. He must get his living out of the capital of the country. The larger the capital is, the better living he can get. Every particle of capital which is wasted on the vicious, the idle, and the shiftless is so much taken from the capital available to reward the independent and productive laborer.

But we stand with our backs to the independent and productive laborer all the time. We do not remember him because he makes no clamor; but I appeal to you whether he is not the man who ought to be remembered first of all, and whether, on any sound social theory, we ought not to protect him against the burdens of the good-for-nothing. In these last years I have read hundreds of articles and heard scores of sermons and speeches which were really glorifications of the good-for-nothing, as if these were the charge of society, recommended by right reason to its care and protection. We are addressed all the time as if those who are respectable were to blame because some are not so, and as if there were an obligation on the part of those who have done their duty towards those who have not done their duty. Every man is bound to take care of himself and his family and to do his share in the work of society. It is totally false that one who has done so is bound to bear the care and charge of those who are wretched because they have not done so.

The silly popular notion is that the beggars live at the expense of the rich, but the truth is that those who eat and produce not, live at the expense of those who labor and produce. The next time

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that you are tempted to subscribe a dollar to a charity, I do not tell you not to do it, because after you have fairly considered the matter, you may think it right to do it, but I do ask you to stop and remember the Forgotten Man and understand that if you put your dollar in the savings bank, it will go to swell the capital of the country which is available for division amongst those who, while they earn it, will reproduce it with increase.

"The Working Classes"

Let us now go on to another class of cases. There are a great many schemes brought forward for "improving the condition of the working classes." I have shown already that a free man cannot take a favor. One who takes a favor or submits to patronage demeans himself. He falls under obligation. He cannot be free and he cannot assert a station of equality with the man who confers the favor on him. The only exception is where there are exceptional bonds of affection or friendship, that is, where the sentimental relation supersedes the free relation. Therefore, in a country which is a free democracy, all propositions to do something for the working classes have an air of patronage and superiority which is impertinent and out of place.

No one can do anything for anybody else unless he has a surplus of energy to dispose of after taking care of himself. In the United States, the working classes, technically so called, are the strongest classes. It is they who have a surplus to dispose of if anybody has. Why should anybody else offer to take care of them or to serve them? They can get whatever they think worth having and, at any rate, if they are free men in a free state, it is ignominious and unbecoming to introduce fashions of patronage and favoritism here. A man who, by superior education and experience of business, is in a position to advise a struggling man of the wages class, is certainly held to do so and will, I believe, always be willing and glad to do so; but this sort of activity lies in the range of private and personal relations.

I now, however, desire to direct attention to the public, general, and impersonal schemes, and I point out the fact that, if you undertake to lift anybody, you must have a fulcrum or point of resistance. All the elevation you give to one must be gained by an equivalent depression on someone else. The question of gain to society depends upon the balance of the account, as regards the position of the persons who undergo the respective operations. But nearly

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all the schemes for "improving the condition of the working man" involve an elevation of some working men at the expense of other working men.

When you expend capital or labor to elevate some persons who come within the sphere of your influence, you interfere in the conditions of competition. The advantage of some is won by an equivalent loss of others. The difference is not brought about by the energy and effort of the persons themselves. If it were, there would be nothing to be said about it, for we constantly see people surpass others in the rivalry of life and carry off the prizes which the others must do without. In the cases I am discussing, the difference is brought about by an interference which must be partial, arbitrary, accidental, controlled by favoritism and personal preference.

I do not say, in this case, either, that we ought to do no work of this kind. On the contrary, I believe that the arguments for it quite outweigh, in many cases, the arguments against it. What I desire, again, is to bring out the forgotten element which we always need to remember in order to make a wise decision as to any scheme of this kind. I want to call to mind the Forgotten Man, because, in this case also, if we recall him and go to look for him, we shall find him patiently and perseveringly, manfully and independently struggling against adverse circumstances without complaining or begging. If, then, we are led to heed the groaning and complaining of others and to take measures for helping these others, we shall, before we know it, push down this man who is trying to help himself.

The Abuse of Legislation

Let us take another class of cases. So far we have said nothing about the abuse of legislation. We all seem to be under the delusion that the rich pay the taxes. Taxes are not thrown upon the consumers with any such directness and completeness as is sometimes assumed; but that, in ordinary states of the market, taxes on houses fall, for the most part, on the tenants and that taxes on commodities fall, for the most part, on the consumers, is beyond question. Now the state and municipality go to great expense to support policemen and sheriffs and judicial officers, to protect people against themselves, that is, against the results of their own folly, vice, and recklessness. Who pays for it? Undoubtedly the people who have not been guilty of folly, vice, or recklessness. Out of nothing comes nothing. We cannot collect taxes

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from people who produce nothing and save nothing. The people who have something to tax must be those who have produced and saved.

When you see a drunkard in the gutter, you are disgusted, but you pity him. When a policeman comes and picks him up you are satisfied. You say that "society" has interfered to save the drunkard from perishing. Society is a fine word, and it saves us the trouble of thinking to say that society acts. The truth is that the policeman is paid by somebody, and when we talk about society we forget who it is that pays. It is the Forgotten Man again. It is the industrious workman going home from a hard day's work, whom you pass without noticing, who is mulcted of a percentage of his day's earnings to hire a policeman to save the drunkard from himself.

All the public expenditure to prevent vice has the same effect. Vice is its own curse. If we let nature alone, she cures vice by the most frightful penalties. It may shock you to hear me say it, but when you get over the shock, it will do you good to think of it: a drunkard in the gutter is just where he ought to be. Nature is working away at him to get him out of the way, just as she sets up her processes of dissolution to remove whatever is a failure in its line. Gambling and less mentionable vices all cure themselves by the ruin and dissolution of their victims. Nine-tenths of our measures for preventing vice are really protective towards it, because they ward off the penalty. "Ward off," I say, and that is the usual way of looking at it; but is the penalty really annihilated? By no means. It is turned into police and court expenses and spread over those who have resisted vice. It is the Forgotten Man again who has been subjected to the penalty while our minds were full of the drunkards, spendthrifts, gamblers, and other victims of dissipation. Who is, then, the Forgotten Man? He is the clean, quiet, virtuous, domestic citizen, who pays his debts and his taxes and is never heard of out of his little circle. Yet, who is there in the society of a civilized state who deserves to be remembered and considered by the legislator and statesman before this man?

State Regulation and Control

Another class of cases is closely connected with this last. There is an apparently invincible prejudice in people's minds in favor of state regulation. All experience is against state regulation and in favor of liberty. The freer the civil institutions are, the more weak or

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mischievous state regulation is. The Prussian bureaucracy can do a score of things for the citizen which no governmental organ in the United States can do; and, conversely, if we want to be taken care of as Prussians and Frenchmen are, we must give up something of our personal liberty.

Now we have a great many well-intentioned people among us who believe that they are serving their country when they discuss plans for regulating the relations of employer and employee, or the sanitary regulations of dwellings, or the construction of factories, or the way to behave on Sunday, or what people ought not to eat or drink or smoke. All this is harmless enough and well enough as a basis of mutual encouragement and missionary enterprise, but it is almost always made a basis of legislation. The reformers want to get a majority, that is, to get the power of the state and so to make other people do what the reformers think it right and wise to do. A and B agree to spend Sunday in a certain way. They get a law passed to make C pass it in their way. They determine to be teetotallers and they get a law passed to make C be a teetotaller for the sake of D who is likely to drink too much.

Factory acts for women and children are right because women and children are not on an equal footing with men and cannot, therefore, make contracts properly. Adult men, in a free state, must be left to make their own contracts and defend themselves. It will not do to say that some men are weak and unable to make contracts any better than women. Our civil institutions assume that all men are equal in political capacity and all are given equal measure of political power and right, which is not the case with women and children. If, then, we measure political rights by one theory and social responsibilities by another, we produce an immoral and vicious relation. A and B, however, get factory acts and other acts passed regulating the relation of employers and employees and set armies of commissioners and inspectors traveling about to see to things, instead of using their efforts, if any are needed, to lead the free men to make their own conditions as to what kind of factory buildings they will work in, how many hours they will work, what they will do on Sunday, and so on.

The consequence is that men lose the true education in freedom which is needed to support free institutions. They are taught to rely on government officers and inspectors. The whole system of government inspectors is corrupting

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to free institutions. In England, the liberals used always to regard state regulation with suspicion, but since they have come to power, they plainly believe that state regulation is a good thing – if *they* regulate – because, of course, they want to bring about good things. In this country each party takes turns, according as it is in or out, in supporting or denouncing the noninterference theory.

Who Is the Victim?

Now, if we have state regulation, what is always forgotten is this: Who pays for it? Who is the victim of it? There always is a victim. The workmen who do not defend themselves have to pay for the inspectors who defend them. The whole system of social regulation by boards, commissioners, and inspectors consists in relieving negligent people of the consequences of their negligence and so leaving them to continue negligent without correction. That system also turns away from the agencies which are close, direct, and germane to the purpose, and seeks others.

Now, if you relieve negligent people of the consequences of their negligence, you can only throw those consequences on the people who have not been negligent. If you turn away from the agencies which are direct and cognate to the purpose, you can only employ other agencies. Here, then, you have your Forgotten Man again. The man who has been careful and prudent and who wants to go on and reap his advantages for himself and his children is arrested just at that point, and he is told that he must go and take care of some negligent employees in a factory or on a railroad who have not provided precautions for themselves or have not forced their employers to provide precautions, or negligent tenants who have not taken care of their own sanitary arrangements, or negligent householders who have not provided against fire, or negligent parents who have not sent their children to school.

If the Forgotten Man does not go, he must hire an inspector to go. No doubt it is often worth his while to go or send, rather than leave the thing undone, on account of his remoter interest; but what I want to show is that all this is unjust to the Forgotten Man, and that the reformers and philosophers miss the point entirely when they preach that it is his duty to do all this work. Let them preach to the negligent to learn to take care of themselves. Whenever A and B put their heads together and decide what A, B, and C must do for D, there is never any pressure on A and B. They consent to

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it and like it. There is rarely any pressure on D because he does not like it and contrives to evade it. The pressure all comes on C. Now, who is C? He is always the man who, if let alone, would make a reasonable use of his liberty without abusing it. He would not constitute any social problem at all and would not need any regulation. He is the Forgotten Man again, and as soon as he is brought from his obscurity you see that he is just that one amongst us who is what we all ought to be. . . .

The One Who Pays

Such is the Forgotten Man. He works, he votes, generally he prays — but he always pays — yes, above all, he pays. He does not want an office; his name never gets into the newspaper except when he gets married or dies. He keeps production going on. He contributes to the strength of parties. He is flattered before election. He is strongly patriotic. He is wanted, whenever, in his little circle, there is work to be done or counsel to be given. He may grumble some occasionally to his wife and family, but he does not frequent the grocery or talk politics at the tavern. Consequently, he is forgotten. He is a commonplace man. He gives no trouble. He excites no admiration. He is not in any way a hero (like a popular orator); or a problem (like tramps and outcasts); nor notorious (like criminals); nor an object of sentiment (like the poor and weak); nor a burden (like paupers and loafers); nor an object out of which social capital may be made (like the beneficiaries of church and state charities); nor an object for charitable aid and protection (like animals treated with cruelty); nor the object of a job (like the ignorant and illiterate); nor one over whom sentimental economists and statesmen can parade their fine sentiments (like inefficient workmen and shiftless artisans). Therefore, he is forgotten. All the burdens fall on him, or on her, for it is time to remember that the Forgotten Man is not seldom a woman. . . .

It is plain enough that the Forgotten Man and the Forgotten Woman are the very life and substance of society. They are the ones who ought to be first and always remembered. They are always forgotten by sentimentalists, philanthropists, reformers, enthusiasts, and every description of speculator in sociology, political economy, or political science. If a student of any of these sciences ever comes to understand the position of the Forgotten Man and to appreciate his true value, you will find such student an uncompromising advocate of the strictest

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scientific thinking on all social topics, and a cold and hard-hearted skeptic towards all artificial schemes of social amelioration.

A Wasted Productive Force

If it is desired to bring about social improvements, bring us a scheme for relieving the Forgotten Man of some of his burdens. He is our productive force which we are wasting. Let us stop wasting his force. Then we shall have a clean and simple gain for the whole society. The Forgotten Man is weighted down with the cost and burden of the schemes for making everybody happy, with the cost of public beneficence, with the support of all the loafers, with the loss of all the economic quackery, with the cost of all the jobs. Let us remember him a little while. Let us take some of the burdens off him. Let us turn our pity on him instead of on the good-for-nothing. It will be only justice to him, and society will greatly gain by it. Why should we not also have the satisfaction of thinking and caring for a little while about the clean, honest, industrious, independent, self-supporting men and women who have not inherited much to make life luxurious for them, but who are doing what they can to get on in the world without begging from anybody, especially since all they want is to be let alone with good friendship and honest respect. Certainly the philanthropists and sentimentalists have kept our attention for a long time on the nasty, shiftless, criminal, whining, crawling, and good-for-nothing people, as if they alone deserved our attention.

The Forgotten Man is never a pauper. He almost always has a little capital because it belongs to the character of the man to save something. He never has more than a little. He is, therefore, poor in the popular sense, although in the correct sense he is not so. I have said already that if you learn to look for the Forgotten Man and to care for him, you will be very skeptical toward all philanthropic and humanitarian schemes.

It is clear now that the interest of the Forgotten Man and the interest of "the poor," "the weak," and the other petted classes are in antagonism. In fact, the warning to you to look for the Forgotten Man comes the minute that the orator or writer begins to talk about the poor man. That minute the Forgotten Man is in danger of a new assault, and if you intend to meddle in the matter at all, then is the minute for you to look about for him and to give him your aid. Hence, if you care for the Forgotten Man, you will be

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sure to be charged with *not* caring for the poor. Whatever you do for any of the petted classes wastes capital. If you do anything for the Forgotten Man, you must secure him his earnings and savings, that is, you legislate for the security of capital and for its free employment; you must oppose paper money, wildcat banking, and usury laws, and you must maintain the inviolability of contracts. Hence, you must be prepared to be told that you favor the capitalist class, the enemy of the poor man.

Needed: an Understanding and Practice of Liberty

What the Forgotten Man really wants is true liberty. Most of his wrongs and woes come from the fact that there are yet mixed together in our institutions the old medieval theories of protection and personal dependence and the modern theories of independence and individual liberty. The consequence is that the people who are clever enough to get into positions of control, measure their own rights by the paternal theory and their own duties by the theory of independent liberty. It follows that the Forgotten Man, who is hard at work at home, has to pay both ways. His rights are measured by the theory of liberty, that is, he has only such as he can conquer. His duties are measured by the paternal theory, that is, he must discharge all which are laid upon him, as is always the fortune of parents.

People talk about the paternal theory of government as if it were a very simple thing. Analyze it, however, and you see that in every paternal relation there must be two parties, a parent and a child, and when you speak metaphorically, it makes all the difference in the world who is parent and who is child. Now, since we, the people, are the state, whenever there is any work to be done or expense to be paid, and since the petted classes and the criminals and the jobbers cost and do not pay, it is they who are in the position of the child, and it is the Forgotten Man who is the parent. What the Forgotten Man needs, therefore, is that we come to a clearer understanding of liberty and to a more complete realization of it. Every step which we win in liberty will set the Forgotten Man free from some of his burdens and allow him to use his powers for himself and for the commonwealth. ◈

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HENRY HAZLITT

Protected to Death

THE FEDERAL TRADE COMMISSION now wants to require all forms of cigarette advertisements to carry the following warning: "Cigarette smoking is dangerous to health and may cause death from cancer, coronary heart disease, chronic bronchitis, pulmonary emphysema, and other diseases."

In other words, the cigarette industry would be ordered to commit suicide.

Personally, I own no tobacco stocks and haven't smoked a cigarette since the age of 11. I am even willing to concede that the substance of the proposed warning may be true. Nevertheless, certain aspects of it strike me as odd.

It is perhaps true that if you smoke two packs of cigarettes a day, you may end up 20 years from now with lung cancer. But it is almost certainly true that if you were to drink two quarts of whisky at a sitting, and could hold it down, you would end up dead within 24 hours. Yet the FTC is not planning to force the whisky, gin, or vodka distillers to announce that their product is even mildly dangerous to health.

Moreover, once this compulsory warning precedent is established, logic and nondiscrimination would require that it be applied across the board. There is evidence that excessive quantities of milk and butter lead to excessive cholesterol in the arteries, which may also lead to coronary heart disease, which may also lead to death. Should not the dairies be forced to print this warning on their milk cartons?

Driving an automobile may also cause death. Should not the auto companies be compelled to print this warning on the outside of the driving-seat door?

Under the guise of "protecting the consumer," Congress in recent

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years has been delegating to appointive administrative boards life-and-death powers over private industries.

An outstanding case was the law of 1962, passed during the alarm caused by the thalidomide tragedy in that year. Prior to 1962, Federal law already gave the Food and Drug Administration power to prevent the marketing of unsafe drugs. The old law allowed a new drug to be marketed if the government took no action within 60 days after an application was filed.

But the new law inaugurated a few very dubious legal and administrative precedents. It required that a new drug must be shown to be "effective" as well as safe. It put the burden of proof on the industry to supply "substantial evidence" that a drug was effective before it was permitted to go on the market. And it allowed a government official to withhold a drug from the market indefinitely simply by not acting on the application.

This gave bureaucrats power of life or death over a product or a company. They have not hesitated to use or abuse this power. As one result, there has been a dramatic fall in the number of new drugs reaching the market.

The FDA has tried to discourage the sale of nearly all vitamin tablets. It recently took initial steps to ban from the market about 90 fixed combinations of antibiotics because in its own opinion they aren't needed. It says that neither the drug companies that put them out nor the doctors that prescribe them know what they are doing. It seems never to have occurred to the FDA that, so long as a product is not shown to be unsafe, the best way to find out whether it is effective is to allow it to be tried.

Thus one industry after another is in danger of slow strangulation from bureaucratic controls.

When will Congress learn that in the long run the best way of "protecting the consumer" is to encourage the competition of producers, to treat the consumer as a responsible adult and not as a half-wit and to allow him to make his own decisions and his own mistakes? ◈

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The best audience is one!

LEONARD E. READ

TIME AND AGAIN, over the years, friends of the freedom philosophy have urged FEE to go on radio, TV, and into other public media. Or, "Get that excellent article in the *Reader's Digest;* it reaches millions."[1] Implicit in such advice is the notion that ours is a selling rather than a learning problem, that the job is to insinuate our ideas into the minds of others rather than having something in our own minds that others will wish to share. Theirs is an inversion of the educational process.

Let me state my own position at the outset: Were some philanthropist to say, "Put FEE on TV and I'll foot the bill," my answer would be, "No, thank you." And that would be to turn down millions of dollars. Why would I reject such an offer? Not because of any objections to the use of our material in public media; far from it! I simply frown on wasting other people's money and I have an aversion to kidding myself.

Any experienced lecturer or personal counselor, who ignores applause and accurately assesses results, knows full well that the best audience is one, though he may not know the reason why!

The biggest live audience I ever addressed was 2,200. But the applause must have been for "a good show" rather than for any ideas that might have been garnered, for I have yet to find the slightest trace of any ideological impact or of any lasting interest aroused by that lecture.

[1] No one "gets" an article in the *Reader's Digest* any more than in THE FREEMAN. Editors and publishers do their own getting precisely as you get your own ideas.

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Often, when I have been scheduled to address a convention or an annual meeting, a friend in that community has at the same time arranged for a small, invitational gathering. The big affair pays my expenses in dollars, and little more. But the small one invariably yields handsomely in terms of FEE's objectives.

Experiences with Groups

My experiences over several decades attest to the fact, and I believe many teachers would confirm, that the smaller and more personal the audience the better are the educational results. From the inexperienced, however, comes the general insistence on "reaching the masses." Nor should we expect any change in this fallacious attitude unless we are able to explain *why* the best audience is one.

In the case of a national convention, for instance, the program chairman may share my ideas on liberty and invite me for this reason and this alone. His aim is to "educate" the members or, at the very least, to get them interested in the freedom philosophy. Overlooked is the fact that he may be the only one attending the convention who is really interested in these ideas. The others, by and large, couldn't care less; they are not looking for my ideas and, as a consequence, do no "drinking in" at all. I might as well have spoken to so many cemetery headstones.

However, if the message is presented in a highly entertaining manner, audiences will loudly applaud and, on occasion, give the speaker a standing ovation. And the speaker, unless severely realistic, may think they are approving his message rather than the entertainment he furnished. More often than not, the program chairman is primarily interested in "a warm body" who can amuse. If all of his speakers are rousingly applauded, his associational fellows will adjudge him the best chairman they ever had – and that's the reward he seeks. But from the speaker's standpoint, the honorarium comes pretty close to all that counts.

The smaller invitational gathering is another matter. Only those accept the invitation who are interested in the ideas for which the speaker is reputed. As a result, such sessions often continue for hours with a give and take of ideas edifying not only to the guests but to the speaker as well. Parenthetically, of the small gatherings, a FEE Seminar with many hours of concentration on and discussion of the freedom philosophy is the best of all when viewed in the light of our aims. But in all of these smaller sessions the

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"drinking in" is incalculably greater than in the large, wholly impersonal conventions.

However, even these small get-togethers, rewarding as they have been over the years, do not measure up educationally to the man-to-man confrontation between two individuals, each in a high spirit of inquiry.[2] One times one beats 2,200 times zero!

A lecturer, if at all experienced, "feels" an audience. He knows whether or not they're listening. There comes to mind an audience of 500 really first-rate people. I knew they were not tuned in, that I wasn't even entertaining them. Later that night, the reason dawned: the lighting or, rather, the lack of it; I had been speaking in near darkness, as ineffective as if through the loudspeaker of a radio.

A few weeks later, when asked to give the same lecture before an equally first-rate audience, I arranged to be spotlighted. Never have I had a more responsive audience. There's a good reason why stages have footlights. I do not wish to leave the impression, however, that the responsive audience "got the message"; only that they were listening and were, at least, entertained.

Such are the highlights of my experience which lead me to the conclusion that the best audience is one. Bearing in mind that "getting the message" of the freedom philosophy is the sole problem here at issue, let us now examine how the educational process works as related to our aims.

The Process of Education

In the first place, no person can ever grasp these ideas who has not done some thinking about them on his own. A truism: "A man only understands that of which he has already the beginnings in himself." In a word, regardless of how powerful a magnet may be, it can never attract straw or sawdust. This fact drastically limits the number of those who are educable in economic, moral, and political philosophy. It makes nonsense of the notion that educating the masses is even a remote possibility.

Next, of the few who have done some thinking on these matters for themselves, only that fraction of them are further educable who eagerly seek additional enlightenment. A person who is satisfied with what he knows will never add to his knowledge, and one might as well talk to a book as to him.

There is a further crucial point,

[2] "My definition of a University is Mark Hopkins at one end of a log and a student at the other." Attributed to James A. Garfield in a letter accepting nomination for Presidency — July 12, 1880.

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well expressed by Cardinal Newman:

> The general principles of any study you may learn by books at home, but the detail, the color, the tone, the air, the life in it, you must catch all these from those in whom it already lives.[3]

"You must *catch* all these from those in whom it already lives"! You can "catch" the idea that the best audience is one far easier when it is made available for reading than you can by listening to the same idea over radio or TV or as a member of a large audience. When reading, you can reread but you do not relisten to the difficult ideas in speeches, that is, not when the speaker is before large audiences. But if you are one of a dozen in a discussion session, where you are in personal contact with the one "in whom it already lives," there is a back-and-forth exchange which brings you and the other to a common level of understanding, that is, if you "have the floor" to the exclusion of the other eleven.

When the audience is you and you alone, you do, in fact, "have the floor." Assuming that the teacher is intelligent and that you are at once eager to know and perceptive, you will become a better teacher yourself as a result of the experience. There is no other get-together in which the transmittal of ideas is so assured of success as in this one-to-one arrangement. The best audience is always one!

The experiences and reasons I have cited are enough to convince me that the best audience is one, but there is a deeper reason which, if I understood and could explain, would be even more convincing. It's in the area of radiation. There is an enormous dissipation of radiating energy in large audiences. The "sending" is weakened by spreading it out, and the attention – "receiving" – markedly diminishes. I know this to be true from experience and not from analysis, just as I know that the law of attraction – magnetism – works its wonders, though I do not know why.

Hurrying in Wrong Direction

The rebuttal to these observations is heard over and over: The process is too slow.

Overlooked are two unassailable facts. The first is that no ground is gained except as new teachers of the freedom philosophy come into existence. And good teachers are not made from large audiences. *Any effort, such as FEE's, which does not result in more*

[3] From "What Is a University?" reprinted in *The Essential Newman*, ed. V. F. Blehl (New York: New American Library, Inc., Mentor, 1963) p. 162.

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teachers is meaningless. And the hope must be that they will far excel our own capabilities.

The second is that ours is definitely not a numbers problem in the sense of tens of thousands or millions; like every constructive movement of ideas throughout history, ours is exclusively a quality problem. Studying the history of movements, it is clear that you alone could turn the world toward freedom were you competent enough. Until you reach that state of competence, it will behoove others of us in our varied endeavors to try to fill in where there may be deficiencies.

True, the educational process is slow, but it alone merits our attention and effort. While the propagandizing, proselytizing, selling-the-masses techniques get quicker results, the results are no good; they lack any upgrading quality. Indeed, they tend to turn uncommitted citizens away from the freedom philosophy. It is folly to hurry in the wrong direction! As Charles Mackay expressed it in the preface to the 1852 edition of *Extraordinary Popular Delusions and the Madness of Crowds,* "Men, it has been well said, think in herds; it will be seen that they go mad in herds, while they recover their senses slowly, one by one."

Above all, we must bear in mind that good results depend on the power of attraction which, in turn, rests on excellence. Any individual can assess his own competence in this respect by merely observing the extent to which others are seeking his tutorship on free market, private ownership, limited government, and related concepts.

If, hopefully, the seekers be numerous, may they appear one by one, for that is the magic number of the perfect audience. ◈

IDEAS ON LIBERTY

The Maturing Process

THOSE ON OUR SIDE who are looking to the young to lead this nation back to freedom will look in vain. For most of us, it is only with age, if ever, that we acquire the wisdom to be content to live under always imperfect rules that will permit us imperfect men to make our own imperfect decisions, with consequences for each man and for all men that no one can fully predict and that will always be something less than the New Jerusalem.

BENJAMIN A. ROGGE, *What's Past Is Prologue*

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TARIFF WAR

Libertarian Style

GARY NORTH

"COMMON SENSE ECONOMICS" is a phrase used to describe the economic reasoning of the proverbial man in the street. In many instances, this knowledge may rest on principles that are essentially correct. For example, we have that old truism that there are no free lunches. If some of our professional experts in the field of governmental fiscal policy were to face the reality of this truth, they might learn that even the skilled application of policies of monetary inflation cannot alleviate the basic economic limitations placed on mankind.[1] Such policies can make things worse, of course, but they are powerless to do more than redistribute the products of industry, while simultaneously redistributing power in the direction of the state's bureaucratic functionaries.[2] On the other hand, not all of the widely-held economic beliefs are even remotely correct; some of these convictions are held in inverse proportion to their validity. The tariff question is one of these.

The heart of the contradictory thinking concerning tariffs is in the statement, "I favor open competition, but. . . ." Being human, men will often appeal to the State to protect their monopolistic position on the market. They secretly favor security over freedom. The State steps in to honor the requests of certain special interest groups – which invariably proclaim their cause in the name of the general welfare clause of the Constitution – and establishes sev-

[1] *Cf.* Gary North, *Marx's Religion of Revolution* (Nutley, New Jersey: Craig Press, 1968), pp. 56-57.

Mr. North is a Ph.D. candidate in history at the University of California, Riverside.

[2] Bertrand de Jouvenel, *The Ethics of Redistribution* (New York: Cambridge University Press, 1951), pp. 72-73.

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eral kinds of restrictions on trade.

Fair trade laws are one example. They are remnants of the old medieval conception of the so-called "just price," in that both approaches are founded on the idea that there is some underlying objective value in all articles offered for sale. Selling price should not deviate from this "intrinsic" value.[3] Monopolistic trade union laws are analogous to the medieval guild system; they are based in turn upon restrictions on the free entry of nonunion laborers into the labor market.

Tariffs, trade union monopolies, and fair trade laws are all praised as being safeguards against "cut-throat" competition, i.e., competition that would enable consumers to purchase the goods they want at a cheaper price – a price which endangers the less efficient producers who must charge more in order to remain in business. The thing which most people tend to overlook in the slogan of "cut-throat competition" is that the person whose throat is slashed most deeply is the solitary consumer who has no monopolistic organization to improve his position in relation to those favored by Statist intervention.

People are remarkably schizophrenic in their attitudes toward competition. Monopolies of the supply of labor are acceptable to most Americans; business monopolies are somehow evil. In both cases, the monopolies are the product of the State in the market, but the public will not take a consistent position with regard to both. The fact that both kinds operate in order to improve the economic position of a limited special interest group at the expense of the consumers is ignored. Business monopolies are damned no matter what they do. If they raise prices, it is called *gouging;* if they cut prices, it is *cutthroat competition;* if they stabilize prices, it is clearly a case of collusion *restraining free competition.* All forms may be prosecuted. No firm is safe.

The State's policies of inflation tend to centralize production in the hands of those firms that are closest to the newly created money – defense industries, space-oriented industries, and those in heavy debt to the fractional reserve banking system. It is not surprising that we should witness a rising tide of corporate mergers during a period of heavy inflationary pressures, as has been the case during the 1960's in the United States. Yet, with regard to business firms (but not labor unions), the courts are able to take action against almost any firm which

[3] Gary North, "The Fallacy of 'Intrinsic Value'," THE FREEMAN (June, 1969).

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is successfully competing on the market.

As Dr. Richard Bernhard has pointed out, "What is becoming illegal under federal law in the United States is monopolizing – as the law now defines monopolizing; and, since this is now considered a crime, it is possible that perfectly legitimate business actions by one firm may, if they 'inadvertently' lead to monopoly power, put a firm in jeopardy of the law."[4] Thus, we see a rational economic response on the part of business firms – consolidation for the sake of efficiency on an increasingly inflationary market – prosecuted by the State which has created those very inflationary pressures. There is an inconsistency somewhere.

Tariffs Are Taxes

A tariff is a special kind of tax. It is a tax paid directly by importers for the right to offer foreign products for sale on a domestic market. Indirectly, however, the tax is borne by a whole host of people, and these people are seldom even aware that they are paying the tax.

First, let us consider those in the United States. One group affected adversely by a tariff is that made up of consumers who actually purchase some foreign product. They pay a higher price than would have been the case had no duty been imposed on the importer. Another consumer group is the one which buys an American product at a high price which is protected by the tariff. Were there no tariff, the domestic firms would either be forced to lower their prices or shift to some line of production in which they could compete successfully. Then there is the nonconsumer group which would have entered the market had the lower prices been in effect; their form of the "tax" is simply the inability to enjoy the use of products which might have been available to them had the State not intervened in international trade.

Others besides the consumers pay. The importer who might have been able to offer cheaper products, or more of the products, if there had been no tariff, is also hurt. His business is restricted, and he reaps fewer profits. All those connected with imports are harmed. Yet, so are exporters. They find that foreign governments tend to impose retaliatory tariffs on our products going abroad. Even if those governments do not, foreigners have fewer dollars to spend on our products, be-

[4] Richard C. Bernhart, "English Law and American Law on Monopolies and Restraints of Trade," *The Journal of Law and Economics* (1960), p. 142.

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cause we have purchased fewer of theirs.

Two groups are obviously aided. The inefficient domestic producer is the recipient of an indirect government subsidy, so he reaps at least short-run benefits. The other group is the State itself; it has increased its power, and it has increased its revenues. (It is conceivable to imagine a case where higher revenues might in the long run result from lower tariffs, since more volume would be involved, so we might better speak of short-run increases of revenue.) We could also speak of a psychological benefit provided for all those who erroneously believe that protective tariffs actually protect them, but this is a benefit based on ignorance, and I hesitate to count it as a positive effect.

A *second* consideration should be those who are hurt abroad, although we seldom look at those aspects of tariffs. Both foreign importers and exporters are hurt, for the same reasons. The fewer foreign goods we Americans buy, the fewer dollars they have to spend on American goods and services. This, in turn, damages the position of foreign consumers, who must restrict purchases of goods which they otherwise might afford. This leaves them at the mercy of their own less efficient producers, who will not face so much competition from the Americans, since the availability of foreign exchange (U.S. dollars) is more restricted.

The tariff, in short, penalizes the efficient on both sides of the border, and it subsidizes the inefficient. If we were to find a better way of providing "foreign aid" to other countries, we might provide them with our goods (which they want) by purchasing their goods (which we want). That would be a noninflationary type of aid which would benefit both sides, rather than our present system which encourages bullies in our government and creates resentment abroad.

Protecting Vital Industries

What about our vital industries, especially our wartime industries? If they are driven out of business by cheaper foreign goods, what will we do if we go to war and find our trading patterns disrupted? Where will we find the skilled craftsmen?

There is some validity to this question, but it is difficult to measure the validity in a direct fashion. It is true that certain skills, such as watchmaking, might be unavailable in the initial stages of a war. There are few apprentice programs available in the United States in some fields. Nevertheless, if there really is a need

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for such services, would it not be better to subsidize these talents directly? If we must impose some form of tax subsidy, is it not always preferable to have the costs fully visible, so that benefits might be calculated more efficiently?

A tariff is a tax, but few people ever grasp this fact. Thus, they are less willing to challenge the tax, re-examine it periodically, or at least see what it is costing. Indirect taxes are psychologically less painful, but the price paid for the anesthetic of invisibility is the inability of men to see how the State is growing at their expense. What Tocqueville referred to as the "Bland Leviathan" – a steadily, imperceptibly expanding State – thrives on invisible and indirect taxes like inflation, tariffs, and monthly withdrawals from paychecks.[5] It ought to be a basic libertarian position to discover alternative kinds of tax programs, in an effort to reduce the economic burden of the State by making the full extent of taxation more obvious.

Trade War, Statist Style

One advantage of the direct subsidy to protected industries is that such subsidies would not normally result in trade wars. When one nation sees its products discriminated against by another State, it is more apt to retaliate directly. It threatens to raise tariffs against the offending country's products unless the first country's tariffs are reduced. If there is no response, pressures arise within the threatening country's State bureaus to enforce the threat. That, it is argued, will frighten other nations which might be considering similar moves. So the tariff war is born. The beneficiaries are the inefficient on both sides of the border and the State bureaucrats; the losers are all those involved in trade and all consumers who would have liked to purchase their goods at lower prices. This kind of war is therefore especially pernicious: it penalizes the productive and subsidizes the unproductive.

There are many reasons why these wars get started. During periods of inflation, certain countries wish to keep their domestic currencies from going abroad. These currencies, if they have international acceptability, are grounded in gold or in reserve currencies theoretically redeemable in gold. Foreign central banks can ask for repayment, and the inflating nations can be put into extreme financial embarrassment when too many of these claims are presented at one time. So they try to restrict purchases of foreign

[5] Robert Schuettinger, "Tocqueville and the Bland Leviathan," THE FREEMAN (January, 1962).

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goods by their domestic populations. Tariffs are one way of accomplishing this end. Tariffs, in short, prevent international "bank runs," at least for limited periods of time.

Another cause is the fear of State bureaucrats during times of recession or depression that domestic industries will not be favored when domestic populations buy from abroad. This was the case under the infant neomercantile philosophies so popular in the 1930's.[6] The depression was accompanied by a wave of tariff hikes in most of the Western nations, with reduced efficiency and economic autarchy as a direct result. Domestic manufacturers cry for protection from foreign producers. What they are crying for with equal intensity is protection from the voluntary decisions of their own nation's domestic purchasers; it takes two parties to make a trade, and protection from one is equally protection from the other.

The effect of tariff wars is reduced efficiency through a restriction of international trade. Adam Smith, in the opening pages of *Wealth of Nations*, presents his now famous argument that the division of labor is limited by the size of the market. Reduce the size of the market, and you reduce the extent of the division of labor. The cry for protection should be seen for what it is: a cry for a reduction in efficiency.

In a country like the United States, where less than 5 per cent of our national income stems from foreign trade, the cry is especially ludicrous. We hurt the other nations, whose proportion of international trade to national income is much higher (West Germany, Japan), without really aiding very many of our own producers. But there are so few vocal interest groups representing those who benefit from freer trade, while those who have a stake in the intervention of the State make certain that their lobbyists are heard in Washington. The scapegoat of "unfair foreign competition" may be small, but being small, it is at least easy to sacrifice.

The Balance of Trade

In precapitalistic days, economists believed that nations could experience permanent "favorable" balances of trade. A favorable balance was defined as one where you sold more goods abroad than you imported, thus adding to the na-

[6] "The interests which, in times of prosperity, find it hard to enlist support for their conspiracies to rob the public of the advantages of cheapness and the division of labor, find a much more sympathetic hearing." Lionel Robbins, *The Great Depression* (London: Macmillan, 1934), p. 65.

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tional gold stock. Wealth was defined primarily in terms of gold (a position which, even if fallacious, makes more sense than the contemporary inclination to define wealth in terms of indebtedness). Prior to the publication of *Wealth of Nations* (1776), the philosopher, David Hume, disposed of the mercantilist errors concerning the balance of trade. His essays helped to convert Adam Smith to the philosophy of classical liberalism. Hume's essay, "Of the Balance of Trade," was published in 1752 in his *Political Discourses;* it established him as the founder of modern international trade theory.

The early arguments for free trade still stand today. Hume focused on the first one, which is designated in modern economic terminology as the *price rate effect*. As the exported goods flow out of a nation, specie flows in. Goods become more scarce as money becomes more plentiful. Prices therefore tend to rise. The converse takes place in the foreign country: its specie goes out as goods come in, thus causing prices to fall. Foreign buyers will then begin to reduce their imports in order to buy on the now cheaper home markets; simultaneously, consumers in the first nation will now begin to export specie and import foreign goods. A long-run equilibrium of trade is the result.

A second argument is possible, the *income effect*. Export industries profit during the years of heavy exports. This sector of the economy is now in a position to effect domestic production, as its share of national income rises. It will be able to outbid even those foreign purchasers which it had previously supplied with goods.

Last, we have the *exchange rate effect*. If we can imagine a world trading community in which we have free floating exchange rates on the international currency markets (which most governments hesitate to permit), we can see the process more easily. In order to purchase domestic goods, foreigners must have a supply of the exporting nation's domestic currency. As demand for the goods continues, the supply of available currency drops lower. Foreigners competitively bid up the price of the exporting nation's currency, so that it costs more to obtain the currency necessary to buy the goods. This will discourage some of the foreign buyers, who will turn to their own markets. Where we find fixed exchange rates, the same process exists, but under different circumstances. Either black markets in foreign currencies will be established, or else some kind of quota restrictions will be placed on the

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availability of the sought-after currency, as demand rises for exchange. Foreigners will simply not be able to obtain all the currency they want at the official price. Thus, what we witness is an equilibriating process of the exchange of goods; there can be no long-run imbalance of trade. No nation can continue to export more than it imports forever.

Tariff War, Libertarian Style

When some foreign State decides to place restrictions on the importation of goods from another country, what should be the response of that latter country's economic administrators? Their goal is to make their nation's goods attractive to foreign purchasers. They should want to see the international division of labor maintained, adding to the material prosperity of all involved. If this is the goal, then policies that will keep the trade barriers at low levels should be adopted. Instead, there is the tendency to adopt retaliatory tariff barriers, thus stifling even further the flow of goods. This is done as a "warning" to other nations.

If the 1930's are anything like representative years of such warnings, then we should beware of conventional tariff wars. In those years a snowballing effect was produced, as each nation tried to "out-warn" its neighbor in an attempt to gain favorable trade positions with all others. The result was the serious weakening of the international specialization of labor and its productivity. At a time when people wanted cheaper goods, they imposed trade restrictions which forced prices upward and production downward.[7] Professor Mises' old dictum held true: When a State tries to improve economic conditions by tampering with the free market, it usually succeeds in accomplishing precisely the results which it sought to avoid (or *officially* sought to avoid, at any rate).

The best policy for "retaliation" would be to *drop* all tariff barriers in response. A number of things would result from such action. For one thing, it would encourage the importation of the goods produced by the offending country. Then the three effects described earlier would go into operation. The offending nation would find that its domestic price level would rise, and that its citizens would be in a position to buy more foreign goods (including the goods of the discriminated country). What would be done with the currency or credits in the hands of citizens of the high tariff nation?

[7] Wilhelm Röpke, *International Economic Disintegration* (London: Hodge, 1942), ch. 3.

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They could not spend it at home. If we, as the injured party, continued to make it easy for our citizens to buy their goods, we would provide them with lots of paper money which could be most easily used to buy our goods in return. We would gain the use of the consumer goods produced abroad, and we would be losing only money. We would be getting the best possible goods for our money, so the consumer cannot complain; if we had imposed retaliatory tariffs, consumers would have had to settle for domestically produced goods of a less desirable nature (since the voluntary consumption patterns are restricted by the imposition of a tariff). Our prices would tend to go down, making our goods more competitive on the international markets.

The tariff is a self-defeating device. As American dollars came into the high tariff nation, they could be exchanged for our gold. But this would tend to increase the rate of inflation in that country, as the gold reserves would most likely serve as the foundation for an expansion of the domestic money supply. Domestic prices would climb, and the citizens would attempt to circumvent the tariffs in various ways. Black markets in foreign currencies and goods are established; foreign goods are purchased in spite of tariff barriers; pressures for freer trade can arise, especially if the discriminated nation has wisely refused to turn to retaliation in the traditional way.

The statist tariff war is irrational. It argues that because one's citizens are injured by one restriction on foreign trade, they can be aided by further restrictions on foreign trade. It is a contemporary manifestation of the old cliché, "He cut off his nose to spite his face." It is time that we accept the implications of David Hume's two-hundred-year-old arguments. The best way to overcome restrictions on trade, it would seem, is to establish policies that encourage people to trade more. ◈

IDEAS ON LIBERTY

Free Trade

FREE TRADE is such a simple solution for so many of the world's ills. It doesn't require endless hours of debate in the United Nations . . . or any other world-wide debating society. It requires only that *one nation* see the light and remove *its* restrictions. The results will be immediate and widespread.

W. M. CURTISS, *The Tariff Idea*

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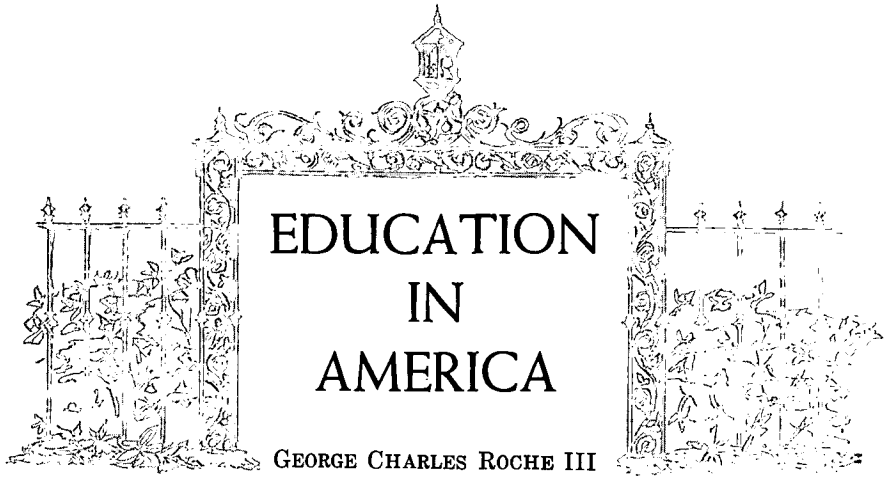

11. *Creativity*

"THE CHIEF wonder of education is that it does not ruin everybody connected with it, teachers and taught," Henry Adams once remarked. Such may indeed be the sad consequence of an education that fails to teach people to think, to participate in some small way in the creative process which distinguishes man from animal.

If we would better understand the creative process, we might begin with the recognition that creativity does not originate in and cannot be measured by standardized controls. The concepts of standardization and creativity are mutually exclusive. Our society's continuing attempt to judge its success by the degree of "consensus" it achieves, by the extent to which it imposes "adjustment" on the individuals who are its members, is a demonstration of our failure to realize the mutually exclusive nature of that relationship. We seem to insist that the individual will find fulfillment to the extent that he makes his peace with the system.

It is true enough that we must be able to live and work with our fellows. But, is mere "adjustment"

Dr. Roche is Director of Seminars for the Foundation for Economic Education. He has taught history and philosophy in college and maintains a special interest in American education.

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enough? A *Fortune* study undertaken a few years ago asked 150 corporation presidents and 150 personnel directors whether, if they *had* to choose, they would prefer: (1) the adaptable administrator, skilled in managerial techniques and concerned primarily with human relations and with making the corporation a smooth-working team; or (2) a man with strong personal convictions who is not shy about making decisions likely to upset tested procedures. The vote: the presidents divided half-and-half; the personnel men, 3-to-1 in favor of the administrator.[1] This preference for "adjustment" over creative leadership is widespread in our society.

Adjustment vs. Creativity

When creative capacity is sacrificed to adjustment, the results are likely to be futile and uninspiring. In fact, human beings owe most of their conspicuous historical advances to periods when "adjustment" and control could not be forced upon social life. The dead hand of conformity and spontaneous forces of creativity simply do not act in concert. The periods historians usually describe as "civilized" were invariably triggered by lapses of enforced conformity, thus making possible a creative flowering.

There can be no such thing as "creativity on command," because genuine originality arises within the individual, not the collectivity. That aristocratic element in creativity implies a reliance upon higher standards than can be expected of society as a whole. The personal aspect of creativity cannot be mass-produced. Indeed, the process works in reverse. Confucius had the idea that if an individual could only come to terms with his own personality and develop his own potential, that development would extend, in ever-widening circles, throughout a larger and larger area of influence, first touching those nearest the individual, finally spreading to the community at large. Since societies on the whole have proven notoriously unwilling to accept high standards and truly advanced ideas, the result of such individual creative development, when it has occurred, has been the apparent "social maladjustment" of the unique and creative personality, whose only guilt consists in his possessing more wisdom than society can accept. When societies have chosen to penalize such "maladjustment" and have demanded conformity, they often have destroyed the creative impulses which gave them viability.

[1] William H. Whyte, Jr., "The New Illiteracy," *The Public Schools in Crisis*, ed. by Mortimer Smith, p. 108.

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Creation in the Service of Truth and a Higher Morality

Thus, society is obligated to allow freedom to the creative individual or risk its own destruction. A form of that same obligation applies to the creative individual. Unless his capacities are used to serve truth, the creative individual is also finally destroyed. Those who live immediately *after* a period of free creativity are especially vulnerable in this regard. Because previous creative genius has already "thought through" a problem, subsequent generations often feel it unnecessary to rethink it, thus failing to recreate the solution within themselves. Few men have realized that the true must be not only discovered, but perennially *rediscovered* and *redefined.* Any moral code which does not allow for individual, internal *expansion* of an ethical ideal is doomed to extinction. In Ortega's words, "The good is, like nature, an immense landscape in which man advances through centuries of exploration."[2]

There are signs that the modern world displays little enthusiasm for advance along such lines. We seem to feel that we can free the whole world from material concerns, but one need ask, "What does it profit a man to free the whole world if his soul is not free?"[3]

And how free are our souls if we are valued by the world around us only for our ability to shed our personalities, to "adapt" to the values and standards of our society, to suffer the death and burial of the originality and creative capacity which should give us our identities?

In this world of utilitarian and materialist values, we seem to have forgotten that truth is not the servant of man. Unless the individual is the servant of truth, both he and his society are doomed. Society cannot do without the services of the creative individual; the creative individual is likewise doomed unless his capacities serve a higher morality than his own devising. The individual achieves his fulfillment only as he overcomes his own limitations and transcends himself in service of a higher ideal.

> . . . If there is no God, as Truth and Meaning, if there is no higher Justice, then everything flattens out, and there is neither any one nor any thing to which man can rise. If on the other hand, man is God, the situation is flatter still, hopeless and worthless. Every qualitative value is an indication that in the path of man's life there lies something higher than man.

[2] José Ortega y Gasset, *Meditations*, p. 37.

[3] George Santayana, *Character and Opinion in the United States*, p. 118.

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And that which is higher than man, i.e., the divine, is not an exterior force standing above and ruling him, but that which, in him, makes him truly man – his higher freedom.[4]

The Key to Creation

True education must recognize the individual nature of originality and creativity. No matter how dynamic the teacher, the effective force in genuine education is the student's will to learn and to grow. All learning and discovery, with or without a teacher, takes place deep in the individual's personality. Sir Isaac Newton, when asked how he had reduced the vast quantity of physical phenomena to apparent simplicity, replied, "*Nocte dieque incubando*" (turning them over day and night). The one fact which we know about that "turning" process was that it demanded a tremendous withdrawal into self, tremendous thought and introspection.

To compare Newton's answer with the methods all too common in modern academic research provides a revealing insight. First the researcher "structures" a research project, gathers a team of co-workers, and requests foundation grants in support of his work – then, if the corporate judgment so wills it, the "team project" begins. That such research provides "facts," one cannot deny. It is less clear that it yields the intuitive perceptions which can be achieved when a gifted individual takes those facts and "turns them over day and night."

The collective approach to wisdom is forever suspect. Emerson once insisted:

> Ours is the age of the omnibus, of the third person plural, of Tammany Hall. Is it that Nature has only so much vital force, and must dilute it if it is to be multiplied into millions? The beautiful is never plentiful.[5]

"The beautiful is never plentiful." How true. When we complain of the "failures of our age," do we not label ourselves unrealistic? Haven't all ages and all societies been filled with shortcomings? The great achievements have always been individualistic. Indeed, any original achievement implies separation from the majority. Though society may honor achievement, it can never produce it.

The morning after Charles Lindbergh flew the Atlantic nonstop from New York to Paris, an associate of Charles Kettering rushed into the research expert's laboratory in Dayton, Ohio, shouting: "He made it! Lindbergh landed safely in Paris!" Kettering

[4] Nicholas Berdyaev, *The Realm of Spirit and the Realm of Caesar*, p. 40.

[5] *Emerson: A Modern Anthology*, ed. by Alfred Kazin & Daniel Aaron, p. 182.

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went on working. The associate spoke again: "Think of it – Lindbergh flew the Atlantic alone! He did it all by himself!" Kettering looked up from his work momentarily and remarked quietly: "When he flies it with a committee, let me know."

It seems as if the Deity dressed each soul which he sends into nature in certain virtues and powers not communicable to other men, and sending it to perform one more turn through the circle of beings, wrote *"Not transferable"* and *"Good for this trip only,"* on these garments of the soul. There is something deceptive about the intercourse of minds. The boundaries are invisible, but they are never crossed.[6]

If each of us is to perform his unique function, each must be free to do so. The word "freedom" means nothing unless it consists first of all in freedom of personality, the individuality possible only if a person is a free creative spirit over whom neither state nor society is omnipotent. The individual must be free to listen to that still small voice within:

There is a time in every man's education when he arrives at the conviction that envy is ignorance; that imitation is suicide; that he must take himself for better or worse as his portion; that though the wide universe is full of good, no kernel of nourishing corn can come to him but through his toil bestowed on that plot of ground which is given to him to till. The power which resides in him is new in nature, and none but he knows what that is which he can do, nor does he know until he has tried.[7]

The individual who is thus cultivating his own little piece of the universe may well be engaged in the production of a unique and valuable vision, a vision which no collection of men, no "consensus" can possibly evaluate:

. . . the only difference is that what many see we call a real thing, and what only one sees we call a dream. But things that many see may have no taste or moment in them at all, and things that are shown only to one may be spears and water-spouts of truth from the very depth of truth.[8]

Intuition

These "water-spouts of truth from the very depth of truth" are the product of individual intuition. Such intuition operates largely outside the conscious mind. It goes under many names and is subject to many interpretations, ranging from "a flash of insight into Absolute Truth" to "promptings from a guardian angel." Those who are responsive to such promptings are the creative among us. Probably many more of us

[6] *Ibid.*, p. 215.

[7] *Ibid.*, p. 99.

[8] C. S. Lewis, *Till We Have Faces*, p. 277.

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might participate in Creation if we would only respond to our intuitions, if we would fan the tiny spark into a flame. Unless we leave the individual free to do that job for himself, unless we prepare him for such an expectation, we do not have an educational system worth its name.

The Role of a Demanding Environment

Granted the necessity for intuition, how does a man learn to discipline himself and respond to the call when it comes? Imagination there must be, but imagination disciplined by intellect. The development of intellect demands work and academic standards. Only an education with a well-developed hierarchy of values, demanding much from the individual, can lay the groundwork for the union of imagination and intellect which allows creative thinking.

What are some of the elements in such a hierarchy of values? One necessary element would be a well-developed memory – reminding the world that lasting accomplishment is produced not by the easily-pleased forgetter of hard truths, but by the man who remembers and understands reality, even when it is most painful. Another element would be a well-established set of values which the individual has accepted as his own. A distinguished psychiatrist has recently made it clear that sound character formation is not possible unless the individual clearly knows who he is and what he believes.[9] Here again, lasting accomplishment has never come from those willing to shift their personality or their principles for a more comfortable "adjustment" with the world. Accomplishment, intuition, and creativity have always come from those who knew who they were and what they believed, even when they suffered at the hands of the world for their firm grasp of reality and personal identity.

Self-Esteem

Such creative people, knowing who they are and what they value, tend to reflect self-esteem. A recent study of self-esteem among young boys reflected a high correlation between what the boys did and what they *thought* they could do. Those boys coming from homes where parents maintained a close interest in them, where parents demanded high standards of behavior and performance, where firm discipline was a fact, not a debating point, proved to be boys of strength and achievement, capable of creative application of intellect, personality, and imagination.

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[9] William Glasser, *Mental Health or Mental Illness?* p. 15.

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The findings from these studies concerning the factors that contribute to the formation of high self-esteem suggest important implications for parents, educators and therapists. They indicate that children develop self-trust, venturesomeness and the ability to deal with adversity if they are treated with respect and are provided with well-defined standards of value, demands for competence and guidance toward solutions of problems. It appears that the development of independence and self-reliance is fostered by a well-structured, demanding environment rather than by largely unlimited permissiveness and freedom to explore in an unfocused way.[10]

Just as the individual must be free to pursue his intuition, so he must be the product of a disciplined environment to develop properly his capacities of intellect and imagination. Once again, those interested in education are faced with the necessity of providing freedom for the individual to choose, but defining it as freedom to choose within an already established framework of values. It appears to be true that man can only be genuinely free when he accepts the discipline of a higher standard. Perhaps each of us can only be a creator to the extent that he is in harmony with The Creator.

The man who lives his own vocation and follows his own destiny is the creative man, since his life is in full agreement with his true self. It is the business of education to allow the individual to develop that harmony of capacity and opportunity, of intent and fulfillment, of creativity and creation, which provides the chance for the individual to use his life in pursuit of everlasting goals and achievements. ◈

[10] Stanley Coopersmith, "Studies in Self-esteem," *Scientific American*, Feb. 1968, p. 106.

The concluding piece in this series will discuss "A Philosophy of Growth."

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The Consequences Are ABSOLUTE

JUNE I. WARD

CONTRARY to much popular belief, we of the planet earth live by certain unalterable absolutes. In America since the late 1800's our intelligentsia have been trying to teach us that this is not true. "The only absolute is change," they say – which statement is a contradiction in terms, since by sound definition an absolute is that which does *not* change.

There are in fact certain absolutes that no amount of wishing, hoping, praying, or hiding will destroy. The basic one is – we live in a world where nothing is given to mankind except life itself and the elements of the earth. Even these so-called free gifts cannot be used without some effort on the part of the recipient. It is then safe to say absolutely: *Nothing is free.*

Now, if this is a basic natural law, then the human beings on this earth must take it into consideration when they build philosophical, political, religious, and economic systems. But do they? Our philosophy is based on pragmatism – whatever works is true; our politics are based on compromise – promise them anything, but get elected; our religions are built on humanitarianism – man's highest good comes from serving other men; and our economic beliefs tell us we can spend, waste, destroy, and borrow indefinitely without coming to a day of reckoning – we never have to pay a debt we owe ourselves.

Let us apply this law of built-in costs to just one of these fields of human endeavor. Let us explore the damage done to our economic life as a result of ignoring the absolute – *nothing is free!*

Goods come into existence by the use of three things: elements (matter), thought (ingenuity),

Mrs. Ward is a housewife and full-time student at Bowling Green University in Ohio, majoring in American history.

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and labor (energy). Man takes the elements of the earth, applies thought, and then proceeds with his labor to bring into being a result or good which is useful to him. If man does not think or if he reasons incorrectly, he suffers want and the elements are wasted. If he applies labor alone, his harvest is meager and might not sustain him. Only when he applies both thought and labor to the material universe does he produce an adequate harvest.

By taking thought, mankind has been able to harness the earth's elements in the form of energy to make them work for him. In this way – that is, by using capital – he can reap a larger harvest than would be possible by the use of his manual labor alone. But no matter how ingenious man's technology, he can never come to the place where he no longer needs matter, thought, and labor (all three) to produce goods.

But what are the new breed economists telling us? "We have achieved perpetual motion through our harnessing of energy. Man no longer needs to work because he has machines to work for him. All man needs to do now is redistribute the produce and we will all have enough."

We are free to hold all manner of beliefs about this world, but we are not free to select the consequences of our beliefs. If we ignore the law which states, "A force cannot be applied in any direction without an equal force in the opposite direction," or, more simply, *Nothing is free,* we will still reap the consequences of that law.

If we *ignore* the fact that a totalitarian trend is generated whenever any society tools up for the political redistribution of goods, if we presume that a totalitarian society can produce enough goods and services so that society *en masse* can have a high standard of living, and if we believe that a secure "utopia" is a positive good, we still have the problem of price.

The price, fellow men, is freedom. Cradle-to-grave economic security demands that the receiver give up his conscious volition, become a robot, and allow himself to be spoon-fed by the giver of this "good."

"But that is not what the seeker of security is looking for," you say. "What he really wants is to live without mundane tasks and have complete freedom to do what he wishes with his time." Now, there's a noble aim – and one which is impossible to achieve in this world. The world can support a few nonproducers, but not nonproducers in large groups. This is true because many men have sufficient ingenuity and energy to

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produce more than they personally need and are willing to do so as long as they are allowed the decision as to its distribution. When they are no longer allowed this decision, they cease to overproduce, because they know that no one has the right to make them work for others. In the realm of human endeavor, the division of labor is from choice, not, as is true with the lower forms of life, from physiological differences.

In the last fifty years America has been more and more ignoring the absolute, *Nothing is free,* and we have come to a time of decision. We can recognize this law and gradually reverse our direction, slowly lopping off those segments of our economy which are doles and, over a period of years, become once again free and self-reliant; or we can continue in the path we're on and become completely totalitarian and impoverished like the rest of the world; or we can try to retain our freedom in a partially controlled economy until we go down in an economic heap with a world-sized monetary collapse.

We have these three choices – but we have no choice about the end results of the path we take. These results are preordained by law and will come to pass regardless of our wishes in the matter. That is the way the laws of nature operate.

If we choose the wrong path at this point in time, one can always retain the hope that human freedom will ultimately rise like the Phoenix from the ashes of its own funeral pyre with renewed youth and beauty. ◈

IDEAS ON LIBERTY ***Franklin Pierce***

I READILY, and I trust feelingly, acknowledge the duty incumbent on us all, as men and citizens, and as among the highest and holiest of our duties, to provide for those who, in the mysterious order of Providence, are subject to want and to disease of body or mind, but I cannot find any authority in the Constitution for making the Federal Government the great almoner of public charity throughout the United States. . . . It would, in the end, be prejudicial rather than beneficial to the noble offices of charity. . . .

From a Veto Message in 1854

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Bastiat's Influence

IT IS a sobering experience to read Dean Russell's *Frederic Bastiat: Ideas and Influence* (Foundation for Economic Education, $2). Not that Mr. Russell's intellectual biography of the great French pioneer of the "freedom philosophy" lacks its exhilarating moments. Bastiat had his triumphs, many of which came after his premature death in 1850 of tuberculosis. Under the Second Empire of Louis Napoleon French commercial policy took a more liberal turn (ironic, inasmuch as the Second Empire was essentially a dictatorship). It was Bastiat's influence that caused the Emperor of the French to draw back from the extreme protectionist policy that had been the rule ever since the first Napoleon. But the "interventionist" fallacies which Bastiat exposed in many a witty parable have as many lives as a thousand cats, and the sobering quality of Mr. Russell's book derives from the obvious parallels that may be drawn between early nineteenth century France and the present day in both England and the U.S.

When Bastiat went up to Paris from his childhood home at Mugron in southwestern France, it was the time of Louis Blanc, the socialist, and Proudhon, the anarchist. Marx had not yet succeeded in evolving what he called "scientific socialism" (a contradiction in terms if there ever was one), but socialist ideas were in the air nevertheless. Blanc believed the State owed every man a living, and he had organized the movement for National Workshops. Well, it was just a few months back that Senators Eugene McCarthy and Abe Ribicoff were telling us that it is the duty of government to become the "employer of last resort" if people can't find jobs in the free enterprise system. The fact that Bastiat had exposed all sorts of government compulsions as a drag on job-creating production and consumption has yet to penetrate large areas of the modern consciousness. But what a prophet Bastiat was!

Writing about Bastiat's career as a legislator, Dean Russell quotes the Bastiat "Law of Bureaucracy."

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Said Bastiat, "I am a firm believer in the ideas of Malthus when it comes to bureaucrats. For their expansion in numbers and projects is fixed precisely by Malthus' principle that the size of the population is determined by the amount of the available food. If we vote 800 million francs for government services, the bureaucrats will devour 800 million; if we give them two billion, they will immediately expand themselves and their projects to the full amount." These words date back to December of 1849, which means that what we now know as Parkinson's Law was formulated by Bastiat a century and more before Parkinson told us that the bureaucrat's work always expands to fill the time available to do it.

Bastiat, the Economist

Dean Russell does not make any exaggerated claims for Bastiat's originality as an economist. After all, the ideas which Bastiat expressed in his major work, *Harmonies of Political Economy*, had been present for the most part in Adam Smith and Jean Baptiste Say. Say's famous "law of markets," which emphasizes the truism that production creates its own purchasing power (in wages, interest, and dividends), is simply a statement of the "harmony of interests" that is the result of a free market. And Adam Smith's figure of the "invisible hand" is Bastiat in a metaphor.

The prime virtue of Bastiat as an economist resided in his style, which turned the "dismal science" into something full of life and sparkle. Beyond that, Dean Russell thinks Bastiat's greatest contribution was as a theorist of government. Actually, Bastiat did not go much beyond Adam Smith in his definition of the duties of the State. He thought government should be limited to providing the courts, the police, and the money system needed to guarantee equal justice to all. Well, Adam Smith had said before Bastiat that governments were instituted among men to provide cheapness, safety, and health, which meant that there must be a free economy (to keep prices low), a good police force and adequate preventive measures to keep the environment clean. But Bastiat, with his genius for the sardonic turn of phrase, summed up the case for the anti-statists in words that will never be forgotten when he remarked that "the State is the great fiction by which everybody tries to live at the expense of everybody else." Herbert Spencer was never able to beat that for memorable verbalization, and only the late Isabel Paterson, among moderns, has come close to Bastiat when it

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comes to giving anti-interventionist ideas an epigrammatic turn.

Before I knew anything of Bastiat I was impressed by Mrs. Paterson's statement that the Reconstruction Finance Corporation, a Hoover Republican idea, was the inevitable precursor of the Rooseveltian Works Progress Administration. Said Mrs. Paterson, when the RFC tried to bail out U.S. corporations in the 1929-32 period, "You can't put J. P. Morgan on the dole and keep poor people from demanding their share." And, of course, it turned out just that way. But Mrs. Paterson's wisdom was simply a restatement of Bastiat's warning to the "upper classes" of France. In his *Harmonies of Political Economy* Bastiat had chastised the upper classes for setting a "fatal example for the masses." "Have they not," so Bastiat wrote of the upper classes, ". . . had their eyes turned perpetually toward the public treasury? Haven't they always tried to secure from government more special privileges for themselves as manufacturers, bankers, mine owners, land owners? Haven't they even gotten subsidies from the public treasury for their ballets and operas? . . . And yet they are astonished and horrified when the masses adopt the same course! When the spirit of greed has for so long infected the wealthy classes, how can we expect it not to be adopted by the suffering masses?"

Proponent of Free Trade

Dean Russell is especially good in showing how Bastiat became the link between the early successes of Richard Cobden and the Anti-Corn Law League in England and the work of Michel Chevalier in converting the government of the French Second Empire to a moderate tariff policy. Bastiat, the friend of Cobden, had never been able to combat the anti-English prejudices of his own countrymen during his lifetime. Realizing that the French masses would never adopt an English idea, Cobden had warned Bastiat that free trade must first be sold in France to an intellectual and governmental elite. But Bastiat was a popularizer, and hence constitutionally unable to resist making a mass appeal. Unable to stir either the masses or the elite to accept free trade, he left it up to his disciple, Michel Chevalier, to move the legislators and the elite of a later period to turn things around.

Bastiat's ideas were in the ascendancy in the 1850-1914 period; even in protectionist America the free traders kept forcing the issue until they achieved a victory with the Wilsonian Underwood Tariff. After World War I, however, mer-

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cantilist ideas came back into vogue. There were Keynes in England, the New Deal in the U.S., Hjalmar Schacht in Germany. Things haven't improved since World War II. But Bastiat's principles are incontrovertible, for the "freedom philosophy" is in accord with man's instinct for life. As the 1968 events in Czechoslovakia proved, the demand for freedom will re-emerge in the most unpromising places. It can be suppressed with bayonets, but the men with the bayonets cannot force a society to produce beyond the subsistence point. Bastiat will have his great revival when the world has had enough of the high-cost measures that intervention and protectionism entail. ◈

▸ THE ECONOMY OF CITIES by Jane Jacobs (New York: Random House, 1969, 268 pp., $5.95)

Reviewed by Robert M. Thornton

CITIES CAME FIRST, declares Jane Jacobs; urban man antedates the farmer; agriculture and animal husbandry were "invented" in prehistoric cities and "exported" to rural areas when cities grew crowded. Similarly with industry, for do we not see manufacturing plants, the latest "export" of cities, moving into the countryside? This matter of priority is important, for cities, according to Mrs. Jacob's thesis, are the rejuvenating or reproductive element of the whole economy. As go the cities, so goes the nation. Hence the importance of understanding just what makes cities rise and prosper. The answer, Mrs. Jacobs continues, is the emergence of new enterprises with opportunities for men to work, repeated not once but many times over and over. When cities fail to do this (Detroit, Pittsburgh, and New York are some of the examples she offers), they stagnate and the whole economy slides into a decline.

What is needed to revive the decaying cities of our nation? Not massive injections of money; for while money is needed, creativity is more important—entrepreneurs with new ideas for using wealth to create more wealth. (The same is true of "underdeveloped" nations and minority groups; they could generate their own capital by creating new work.) To whom do we look for the creation of *new* work? Not so much to large, well-established companies as to small companies and new companies not bound by the old ways of doing things or the sterile divisions of labor that often go with mass production of undifferentiated goods and services. One is reminded of Gerald Heard when Mrs. Jacobs speaks of the dangers of over-specialization and superefficiency.

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Look what happened to the ants with their strict division of labor!

What do we do? Well, in one sense, we can *do* nothing. Mrs. Jacobs, like F. A. Hayek, understands that you do not just put a city together like a child playing with building blocks. Rather you try to set up the right conditions which will permit, and even encourage, a city to grow more prosperous, trusting to human creativity for the rest. What are some of the conditions? Mrs. Jacobs explains that "enterprises serving city consumers flourish most prolifically where the following four conditions are simultaneously met: (1) different primary uses, such as residences and working places, must be mingled together, insuring the presence of people using the streets on different schedules but drawing on consumer goods and services in common; (2) small and short blocks; (3) buildings of differing ages, types, sizes and conditions of upkeep, intimately mingled; and (4) high concentrations of people."

Eight years ago, in her *The Death and Life of Great American Cities* (reviewed in THE FREEMAN January, 1962), Jane Jacobs took a lonesome stand in opposition to city planning and critical of "the Federal bulldozer." Now, once again, she takes a solitary position startlingly different from most of those who proffer diagnoses of urban malaise. Implicit in the whole book is the idea, familiar to readers of THE FREEMAN, that where government or unions or business have the power to restrict competition or in any way thwart new ways of doing things, there will eventually be stagnation. What puzzles the reader is why Mrs. Jacobs fails to come out and say it plain and clear, especially with regard to government. No monopoly, business or union, can exist without at least the tacit approval of the political powers. But whatever the reason, libertarians and conservatives may rejoice that still another book, and a most fascinating and unusual one, is added to the stack of volumes defending individual liberty and the free market against central planning by the State. ◈

▸ FREE SPEECH AND PLAIN LANGUAGE by Albert Jay Nock (Freeport, N. Y.: Books for Libraries Press, 1968, 343 pp., $9.50)

▸ THE BOOK OF JOURNEYMAN by Albert Jay Nock (Freeport, N. Y.: Books for Libraries Press, 1967, 114 pp., $6.50)

Reviewed by Robert M. Thornton

ADMIRERS of the late Albert Jay Nock — editor of THE FREEMAN, 1920-24 — will be pleased that two of his long out-of-print books have

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been republished. *Free Speech and Plain Language*, a collection of essays issued in 1937, includes the morale-raising "Isaiah's Job." The short pieces which comprise *The Book of Journeyman* were first published by the *New Freeman* in 1930. Nock, a first rate social critic, was chiefly interested in the quality of civilization in the United States; this is the theme that knits together most of these essays.

A truly civilized society, Nock contends, encourages the full collective expression of all five social instincts – the instincts of expansion and acquisition, of religion and morals, of beauty and poetry, of social life and manners, and of intellect and knowledge – and permits none to predominate at the expense of the rest. When a society goes on the rocks, as they've all done sooner or later, it is the collective overstress of one or more of these fundamental insights that wrecked it.

Nock indicted American society for leaving "the claim of too many fundamental instincts unsatisfied; in fact, we are trying to force the whole current of our being through the narrow channel set by one instinct only, the instinct of workmanship; and hence our society exhibits an extremely imperfect type of intellect and knowledge, an extremely imperfect type of religion and morals, of beauty and poetry, of social life and manners." The trouble with our civilization, then, is that "it makes such limited demands on the human spirit; such limited demands on the qualities that are distinctly and properly humane, the qualities that distinguish the human being from the robot on the one hand and the brute on the other."

Nothing can be done about this problem unless people acquire a brand-new ethos: "We have hopefully been trying to live by mechanics alone, the mechanics of pedagogy, of politics, of industry and commerce; and when we find it can not be done and that we are making a mess of it, instead of experiencing a change of heart, we bend our wits to devise a change in mechanics, and then another change, and then another." But "it is the spirit and manners of a people, and not the bewildering multiplicity of its social mechanisms, that determines the quality of its civilization."

A thorough reading of Nock's social criticism gives an excellent perspective on the age we live in; it may help us understand why so many of the young are disgruntled with life as they see it lived in this nation today. Nock is the most charming of writers, and has proved a better prophet than many of his highly touted contemporaries. ◈

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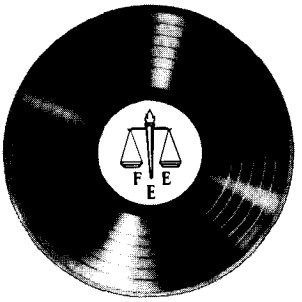

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